BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the Application of the **GOLDEN STATE WATER COMPANY (U 133 W)** for an order authorizing it to increase rates for water service by $2,812,100 or 32.61% in 2008; by -178,700 or -1.51% in 2009; and by $109,900 or 0.92% in 2010 in its Arden Cordova Customer Service Area.	A.07-01-009 (Filed January 5, 2007)
And Related Matters.	Application 07-01-010 Application 07-01-011 Application 07-01-012 Application 07-01-013 Application 07-01-014 Application 07-01-015 (Filed January 5, 2007)

OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

CPUC Decisions

Public Utilities Code

California Code of Regulations

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In the matter of the Application of the **GOLDEN STATE WATER COMPANY (U 133 W)** for an order authorizing it to increase rates for water service by $2,812,100 or 32.61% in 2008; by -178,700 or -1.51% in 2009; and by $109,900 or 0.92% in 2010 in its Arden Cordova Customer Service Area.	A.07-01-009 (Filed January5, 2001)
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Pursuant to Rule 13.11 of the Commission Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) files this Opening Brief in the proceedings stated above. Evidentiary hearings were held in this matter from June 25 to July 2, 2007, and the Parties Opening Briefs were due concurrently on July 23, 2007. Sometime during the week of July 9, 2007, assigned ALJ Regina DeAngelis granted DRA's request to extend the time for filing the Opening Briefs by July 30, 2007, and Reply Briefs by August 13, 2007. Subsequently, in ALJ DeAngelis's absence, ALJ Michelle Cooke via e-mails dated July 30 and August 1, 2007, granted the Applicant's request to extend time for filing the Parties' Opening Briefs to August 2, 2007.

This Opening Brief presents DRA's analyses of the issues of fact and law that remain unsettled despite formal settlement negotiations occurring at or around June 19,

2007. DRA identifies the issues first by the Customer Service Area associated with the specific expense or capital project and then by the specific type of expense or name of the capital project. Several of the issues are common to all the CSAs and for economy of effort and ease of reference, these issues are discussed in the context of one CSA and when the same arises in another CSA, DRA incorporates by reference its prior analyses of this common issue. For example, the following issues are common to more than one CSA: Master Plans, Contingency, Overhead Allocation, CH2M HILL Conflict of Interests, and others as indicated.

Two essential principles of law guide DRA's review in a general rate case (GRC). First, as section 451 of the California Public Utilities Code states:

> All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Second, as the Rate Case Plan holds:

> The utility bears the burden of proving that its proposed rate increase is justified and must include in the PA all information and analysis necessary to meet this burden.

In this proceeding, DRA's recommendations disagrees with the Applicant's requests because Golden State Water Co. has failed to prove its reasons are just and reasonable as shown by specific, quantitative, or plausible support. Rate burdens are a serious concern for most if not all ratepayers, especially if they are senior citizens, disabled, or living on a fixed income. The many Public Participation Hearings attest to the dramatic impact that the Applicant's proposed increases would have on customers. Therefore, with the public interest in mind, DRA has vigorously applied the law and closely scrutinized the Applicant's reasons and support for its rate increases. This is DRA's mission, although the Applicant has stated otherwise.

SANTA MARIA PLANT ISSUES

1. Sisquoc- Foxenwood Site- Well Pump Backup Power

1.1 Background

GSWC is seeking recovery in Test Year 2007 of $162,000 to purchase and install a 20KW, diesel powered generator at the Foxenwood Canyon Well site in the Sisquoc System, Santa Maria CSA. According to GSWC, the purpose of this project is to increase water supply reliability for the Sisquoc System, where the Foxenwood Canyon Well is the only source of water supply, and the reservoir storage is limited to 20,000 gallons. GSWC claims that if electric power were interrupted, the customers would be out of water in as little as four hours during a period of high water demand. On average, electric power outages occur twice a year, and a power outage in August 2005 resulted in a low pressure condition and a precautionary boil water order.[1]

1.2 DRA's Recommendations and Findings

DRA recommends disallowing GSWC's entire $162,000 request for the following reasons:

1.2.1 History of Electrical Outage in the Sisquoc System.

In its Data Response to AMX-25, Question 3, GSWC provided Pacific Gas & Electric data reporting that over approximately a six year period from January 1, 2000, to August 31, 2006, a total of eight outages occurred in the "Foxen Canyon Rd Pump" ranging in duration from a low of 3 minutes on "01-Feb-06 17:10" to a high of 232 minutes on "31-Aug-06 09:23." No electrical outage occurred in August 2005. This data shows that electrical outages in this area have lasted only for 1.2 hours on average and fails to support GSWC's claim that the reservoir capacity of 20,000 gallon water can only last for 4.5 hours.

In the Rebuttal of E. Gisler, GSWC dismissed its own data responses claiming that "emergencies cannot be predicted, particularly when based on only a six-year historical

[1] Ex. DRA (SM) -1, 4-3 ll. 9–15 and n.4, *citing* GSWC Region 1 Santa Maria Workp'prs vol. 2, tab "RATEBASE," sheet 81 ("Project: Generator-Foxen Canyon Well: Proj. Cost: $162,000").

review."[2] However, if six years of data is invalid, GSWC does not offer any other factual basis to justify its request. Therefore, GSWC has failed to carry its burden of proving this $165,000 request is reasonable and justified.

1.2.2 Maximum Day Demand.

In data responses, GSWC stated:

> The maximum day demand for this system is 75 GPM per the December 1998 Master Plan (previously submitted). With a total storage capacity of 20,000 gallons and assuming the tanks were completely full it would take 4.5 hours to drain the tanks with no supply being added to the system. If the tanks were half full when a power outage occurred in July or August it could take little more than two hours to drain the tanks.

Based on GSWC's maximum day demand of 75 GPM and using the average time of the power outages reported by the Pacific Gas and Electric records mentioned above, DRA found that at its full storage capacity of 20,000 gallons, the tank at the Foxenwood Site would be sufficient to sustain the maximum day demand for more than 4.5 hours, assuming an electrical outage of that duration.

In Rebuttal, GSWC dismisses its own reason for this recovery request: "Considering that power outages can occur at anytime, the assumption of a full storage tank is not likely." However, GSWC does not provide any other factual basis for evaluating the need for this capital project. Similarly, when GSWC claims that "DRA's estimation [based on a full storage tank] does not consider fire flow situations," GSWC does not provide any pertinent fire flow data and work sheets or other records explaining how such data would support its need for this project. The record proves that GSWC has not carried its burden of proof.

[2] GSWC (ALL) -22, 96:1–3, E. Gisler Rebuttal/GSWC.

1.2.3 Estimate Project Cost Is Unreasonable.

According to GSWC Santa Maria Workpapers, the "CH2M HILL Estimating Services" prepared the estimated project cost of $165,000.[3] DRA did not find any data support for the CH2M HILL figures. Neither the GSWC Application nor its accompanying documentation provided work-time records, references to industry standards, or any other information that would show the employee salary levels and material costs of CH2MHILL used to estimate the project costs are reasonable, accurate, or consistent with industry practice.

Similarly, GSWC did not include data and work papers supporting CH2MHILL's estimates of the cost of subcontractors' work (e.g., pay rates and hours worked). Both CH2M HILL and the subcontractors do not explain with any underlying data their respective markups for labor, equipment, or installation; their contingency add-ons; their profit margins. In addition, GSWC includes this project request its own general overhead and contingency add-ons. GSWC's requisite justification and proof were as conspicuously missing in its rebuttal, as in its Application.[4] As Kathy Staples aptly testified, in a conventional business environment GSWC would go broke with such overloading, but it has captured ratepayers to pick up the tab.[5] The Commission should therefore deny GSWC's $165,000 requested capital project.

1.2.4 GSWC has already purchased a reasonable, cost effective alternative to the $165,000 motor pump.

GSWC Rebuttal did not challenge DRA's finding during a field trip on March 6, 2007 to the Santa Maria CSA that the Company already owns a mobile generator unit, which in less than an hour could be transported to the Foxenwood Canyon Well if an

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[3] Ex. DRA (SM) -1, 4-4 ll. 17–18 & n.9, *citing* GSWC Region 1 Santa Maria Workp'prs vol. 2, tab "Ratebase," sheets 89–90 ("GSWC Reg. 1 Construction Projs., CIP Projs.- Conceptual Design."

[4] *See* GSWC (ALL) -22, 95:1–28 to 96:1–20 (No discussion of any support for CH2M HILL Estimating Services calculations).

[5] *See* Hr'g Tr. vol. 10, 706:7–14, June 28, 2007, K. Staples/ Inter'sted Prty.

electrical outage occurred. GSWC did not deny the existence of this mobile generator unit on rebuttal.[6]

Further, during its field trip to GSWC, DRA confirmed that pursuant to a 1998 Master Plan a water reservoir in 2003 was built replacing the prior 10,000 gallon reservoir to provide reliable storage during a power outage. Therefore, the water supply reliability that GSWC claims as the purpose for this project has already been resolved. GSWC has failed to prove the reasonableness or justification for this project.[7]

For all the reasons stated above, DRA recommends that the Commission deny GSWC's capital project request of $165,000.

2. The Nipomo- La Serena Erosion Control and Nipomo La Serena Site Paving

2.1 Background

2.1.1 The Nipomo- La Serena Erosion Control (NLSEC).

This capital project for Test Year 2007 proposes to spend $43,000 to install 4,000 square feet of landscaping at the La Serena Plant location, such as planting ground vegetation and new trees. This is pursuant to the CEQA Environmental Study/Negative Declaration that applies to the La Serena Plant Improvement Project (LSPIP).

2.1.2 The Nipomo- La Serena Site Paving (NLSSP)

This capital project involves the GSWC proposed recovery in 2007 of $64,000 to install at the La Serena Plant site an all-weather surface for vehicular access and plant operation year around. This portion of the project was taken out of the scope of the La Serena Plant Improvement Project (LSPIP) and deferred until 2007.

These two capital projects are part of the LSPIP. In D.00-12-063, the Commission only approved three projects for the La Serena Plant, two in GSWC's 2000 capital budget and another in the 2001 capital budget. All three of these projects total approximately

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[6] *Supra* note 4 stated above (What mobile generator unit?).

[7] *See* DRA (SM)-1, 4-5 ll. 14–18 & n.12 (citing 1998 Sisquoc System Master Plan), DRA Santa Maria Rept on Ops.

$181,000 and have been completed as part of the La Serena Plant Improvement Project.[8] Since D.00-12-063, although the Commission has not approved any other capital project in the LSPIP, GSWC has booked and closed to the Santa Maria Plant account, approximately $3,701,215 in capital projects none of which have been reviewed and authorized by the Commission.[9]

2.2 DRA Recommendations and Findings

DRA recommends disallowing rate recovery for any part of the LSPIP, such as the NLSEC ($43,000) and NLSSP ($64,000), because GSWC has already booked into rate base nearly $4 million for the LSPIP without prior Commission's authorization and approval. Because ratepayers have been bearing unauthorized rate burdens in the name of LSPIP, DRA recommends barring GSWC from increasing its rate base in any amount attributable to NLSEC and NLSSP until such time as the Commission has had an opportunity to review the $4 million already booked there. The Commission needs to halt any further ratemaking abuses by GSWC.

According to GSWC's rebuttal, "[t]he reason that no other projects [in the LSPIP] have come before the Commission for approval is that GSWC has not been able to file a comprehensive rate case since D.00-12-063."[10] However, is this present GRC not a "comprehensive rate case"? Further, GSWC failed to explain at the hearing why the LSPIP was not brought before the Commission in the Company GRC application decided by D. 05-05-025.[11] was not the GSWC GRC decided by D. 05-05-025 another GSWC has simply failed to state any factual or legal grounds for failing to bring the entire LSPIP, instead of only two small pieces of the bigger puzzle, into the light of this "comprehensive rate case." By illegally included the LSPIP capital investments of nearly $4 million in rate base without prior Commission review and approval, GSWC has *de*

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[8] Ex. DRA (ALL) -17, GSWC Data Resp. to AMX-26, Resp. 1 (Mar. 20, 2007).

[9] Ex. DRA (SM) -1, 4-7 line 23 to 4-8 ll. 1-2.

[10] Ex. GSWC (ALL) -22, 98:28 to 99:1–2, E. Gisler Rebuttal/GSWC.

[11] Hr'g Tr. vol. 8, 375:5–13, June 25, 2007.

facto improperly burdened its ratepayers in violation of Section 451. DRA recommends that the Commission no longer condone this behavior, and instead initiate (as soon as practical) an Order Instituting Investigation to remedy this wrong.[12]

GSWC claims to have collected from developers contributions in aid of the LSPIP project:

> GSWC collected special facility fees from developers to provide additional storage for maximum day use, operational storage and fire flow related to their projects. The money associated with these projects helped to pay for the La Serena Plant Improvements.[13]

However, DRA found that GSWC only required these developers to pay only $287,000 in costs. When compared to total project cost $3,794,741, the developers contributions of $287,000 only amount to 7.5% of the LSPIP project.[14] GSWC exaggerates the role of the developers in the LSPIP which does not justify the project in any manner.

3. Miscellaneous Bowl Replacements

3.1 Background

GSWC is requesting capital recovery of $213,000, $223,000, and $234,000 respectively for Test Years 2007 and 2008 and Escalation Year 2009. Correspondingly for the same Years, DRA is recommending $76,000, $86,000 and $90,000.[15] The requests are for emergency replacement of pumps and motors; column extensions required due to declining pumping levels; replacing pumps and motors operating at below acceptable efficiencies.

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[12] *See* DRA (SM) -1, 4-10 ll.1–4.

[13] Ex. 22, 99:4–14, E.Gisler Rebuttal/GSWC.

[14] 287,000/3794,741= 7.5%

[15] *Id.* at 4-10 ll. 6–14.

3.2 DRA Recommendations and Findings

Although GSWC claimed its requests mentioned above are based on trending past expenditures for these projects, the Application and accompanying prepared testimony did not present any supporting data documenting past expenditures or the trending methodology used. In subsequent data responses, GSWC provided ten years of pertinent historical data which DRA describes in its Report. From this data response, DRA used the last five years of cost data; adjusted for an abnormally high and out-of-trend 2003 expenditure of $288,209; applied the appropriate inflation factors; and arrived at its estimated amounts for the future rate cycle years. DRA then halved its estimates, based on GSWC's stated purpose for these funds, which was for emergency replacements, and because GSWC is allowed in this proceeding a 5% contingency fund which is for meeting emergency replacements.[16]

In rebuttal, GSWC objected to DRA's normalization of the five years of cost data, claiming "[e]mergencies are difficult to predict, so we need to be prepared to deal financially with them."[17] However, this statement is inconsistent with a prior statement. In the same rebuttal when speaking to the San Antonio Well Replacement in the Ojai CSA, Mr. Gisler stated:

> [B]y looking at the frequency of pump replacements and by analyzing the annual pump tests results; we can pretty well predict when a pump will require replacement.[18]

Therefore, GSWC has failed to rebut as unreasonable DRA's normalization of the five years of cost data, and the Commission should uphold DRA's methodology described above.

On rebuttal, GSWC contests that the 5% contingency is insufficient as follows:

> The cost of pumps, shafts, column pipe and motors continues to increase. The amount being recommended by DRA will

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[16] *Id.* at ll. 15–26 and 4–11 ll. 1–9.

[17] Ex. GSWC (ALL) -22, 111:21–22, E. Gisler Rebuttal/GSWC.

[18] *Id.* at 90:4–6.

> probably provide one pump assembly. What do we do if we lose three pumps in the same year? The 5% contingency that DRA is recommending is not sufficient to make up the difference.[19]

However, GSWC failed to carry its burden of proof by not presenting with its rebuttal any data showing what amount of increase is occurring and stating which specific component of a bowl replacement; the likelihood of three pumps failing in the same year; and how these assumptions would prove the 5% contingency is insufficient. Further, the 5% contingency is available to cover not only emergency replacements for "blanket" items but also for the entire capital project, including the "blanket" items.

Therefore, the Commission should deny GSWC's requests for Miscellaneous Bowl Replacement costs in the rate case cycle Years. DRA's normalization of the trending data is reasonable and GSWC has not proven the 5% contingency is insufficient. DRA recommends that the Commission adopt its estimates as stated in its pertinent Report and for the Years stated above.

4. Master Plan: Orcutt, Nipomo, Lake Marie Systems in the Santa Maria CSA

4.1 Background

GSWC is requesting rate recovery of $359,000 for the hiring of CH2M HILL, an outside engineering consulting firm based in Boulder, CO, to prepare the 2007 Master Plans for the systems Orcutt and Nipomo.

According to GSWC work papers, a Master Plan is a highly detailed analysis of the water system, including water supply reliability, distribution, storage, and water quality as it relates to the existing and anticipated demands within the system. The Master Plan reviews historical characteristics; and projects future demands over a 10-year range; identifies system vulnerabilities to meet customer needs; identifies and prioritizes improvements projects to ensure continued water quality and service. In essence, it is the "road map" for future capital budgets and is a "living document" that updated

[19] *Id.* at 111:24–27.

periodically to define system needs trends and "make cost-effective decision on how to address needs."[20]

In 1996 and 1998, GSWC's in-house engineers prepared the Master Plans for these three systems, and subsequently as well for the other systems in Region 1.[21] GSWC has hired CH2M HILL to prepare all the 2007 Master Plans for Region 1.[22]

4.2 DRA Recommendations and Findings

Basically, the DRA Santa Maria Report has presented ample reasons and support for recommending that the Commission deny GSWC's request for recovery of the $359,000.[23] GSWC has not rebutted any of DRA's findings. GSWC provided no evidence specific to Region 1 to justify having CH2M HILL prepare all of Region 1's Master Plans. This proceeding is to determine the reasonableness and justification for imposing rate burdens on the ratepayers of Region 1 only. Whatever the circumstances are in the other Regions, they are irrelevant and immaterial in this proceeding and cannot justify imposing on ratepayers the higher costs of using CH2M HILL as opposed to having GSWC's own engineers, to prepare all the 2007 Region 1 Master Plans.

4.2.1 Reasonable alternative to hiring CH2M HILL

GSWC has failed to prove the unavailability of a more cost effective and currently existing alternative to using CH2M HILL: i.e., its own engineers. GSWC engineers prepared all the prepare Region 1's Master Plans from 1996 to 1999. At no time in this

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[20] GSWC Reg. 1 Santa Maria Workp'prs vol. 2, tab "Ratebase," sheets 136 and 137 ("Project: Orcutt System Master Plan"). *See also,* GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheet 194 (Jan. 2007).

[21] *See* Ex. DRA (ALL) -5, GSWC Data Response to DRA Data Request AMX-1, Data Response 1 which included a copy of the Master Plans for Region 1, including Nipomo, Lake Marie, but not Orcutt. The Orcutt 1996 Master Plan was not provided to DRA in the course of this proceeding and is only mentioned in Ex. GSWC (ALL) -8, 97:11–13, E. Gisler Prep. Test./GSWC.

[22] Ex. GSWC (ALL) -8, 3:13–15 and 3:23-24, E. Gisler Prep. Test. ("Within Region I we will utilize the services of CH2M Hill to design and prepare . . . system master plans" and "CH2M HILL will prepare system master plans in 2007").

[23] *See* Ex. DRA (SM) -1, 4-23 to 4-26.

proceeding has GSWC come forward with any data comparing the labor and costs of its in-house engineers with those of CH2M HILL in preparing Master Plans.

As GSWC witness E. Gisler testified:

> Q Let me ask the question. Where is comparative data showing how long it would take a comparable group of in-house engineers, their costs per hour, as compared with a privately hired, a firm like CH2MHill?
>
> A We do not have that comparison.

When prior to the hearings, DRA asked for data showing the labor and costs for preparing past Region 1 Master Plans, GSWC responded:

> The respective costs for preparing the master plans are not known because the master plans were prepared in-house and unfortunately the costs of labor and materials for preparing these documents were not tracked.[24]

The record contradicts GSWC's purported inability to track in-house costs to prepare Master Plans. For ratemaking purposes, GSWC tracks, records, and presents O&M and A&G expenses, which would include the salaries and time of the GSWC engineers expended to prepare the Master Plans.[25] Further, according to GSWC witness P. Scanlon, GSWC can track the in-house labor costs involved with meeting local permitting requirements, "by region, by district, by project . . . by year."[26] Inexplicably, GSWC has not explained why its tracking capabilities become unavailable when it concerns its own employees preparing Master Plans.

As the DRA Report states, it is counter-intuitive for GSWC to overlook its own engineers who have years of personal experience and direct knowledge of Region 1's water systems, and instead hire CH2M HILL, which have no comparable background, to prepare the 2007 Master Plans that most likely will evolve from the pre-2007 Master

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[24] Ex. DRA(ALL)-5, GSWC Data Resp. to AMX-1, Resp. 1, dated Feb. 14, 2007.

[25] Look up chapt re o&m and a&g.

[26] Hr'g Tr. vol. 9, 488:18–28, 489:1–3, and 490:11–16, June 26, 2007, P. Scanlon/GSWC.

Plans already prepared by GSWC engineers. However, in rebuttal GSWC claims as follows:

> At the present time, GSWC staff does not possess all the necessary skill sets and experience to prepare the master plans, including experience in hydraulic modeling, GIS, condition assessment, and asset management.[27]

However, in the course of this proceeding, GSWC has presented no data or other information regarding "the skill sets and experience" of the Region 1 engineers who prepared the Region 1 Master Plans from 1996 to 1999, for comparison with CH2M HILL. It is further unproven whether "experience in hydraulic modeling, GIS, condition assessment, and asset management" was exhibited in the pre-2006 Region 1 Master Plans and whether they will be a part of the 2007 Region 1 Master Plans.

In GSWC data response to AMX-29, cost estimates from the CH2M HILL Estimating Services indicate many activities that are the same or closely similar to those which GSWC engineers have undertaken and accomplished in preparing prior Region 1 Master Plans. For example, CH2M HILL lists such tasks as "collect and review supply data," develop future water demand projections," or identify existing and future deficiencies."[28] By comparison, the December 1998 Master Plan for Lake Marie System includes "Section 4–System Demands," "Section 5–Water Supply Evaluation," "Section 9–Improvement Plan."[29] Therefore the record does not support GSWC's reasons for choosing a less cost-effective option, CH2M HILL, to prepare Region 1's 2007 Master Plans.

Also GSWC supports its claim with CH2M HILL work records showing that it would take an average of 1,070 hours to complete a Master Plan, and accordingly, it would require hiring and training 3.5 full-time engineers for over a year to prepare 17

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[27] EX. GSWC (ALL) -22, 5:23–26, E. Gisler Rebuttal/GSWC.

[28] Ex. 17, GSWC Data Resp. AMX-29, Resp. 1 and attach. (spreadsheet giving "detailed cost estimate for preparing Master Plan for the Orcutt and Lake Marie System").

[29] Lake Marie System Master Plan (Dec. 1998) included in GSWC Data Resp. to AMX-1, Resp. 1, dated Feb. 14, 2007.

Master Plans.[30] But this begs the question of how many hours did it take GSWC engineers to the Orcutt, Nipomo, and Lake Marie Master Plans in 1996 and 1998? Will the 2007 Master Plans for these systems build on those prepared in-house in prior years or will they be prepared from scratch? Since the Master Plans are a "living document," the 2007 Master Plans will most likely bear a close family resemblance to their predecessors. GSWC has failed to prove its requests for hiring CH2M HILL to prepare Region 1's Master Plans are reasonable and justified.

DRA also questioned the support for CH2M HILL cost estimates for preparing the Master Plans in question.[31] GSWC has not provided any data showing how CH2M HILL estimated its "time-spent" to prepare the 2007 Orcutt and Lake Marie Master Plans.[32] The consultant hours shown in GSWC's rebuttal are equally unsupported by data and do not deal specifically with Region 1, except for actual 2006 costs in Arden.[33] GSWC has failed to carry its burden of proof and its requests should be denied.

4.2.2 New Business is driving GSWC's need to hire CH2M HILL which should not burden the ratepayers

DRA finds that since 2000, the considerable increase of "new business" in Region 1 is creating the demand there for more engineering services, increased compliance with local permitting requirements, and increased construction and labor costs. Ratepayers should not bear the burden of having to meet demands of new businesses in Region 1.

When asked if in Region 1 there is an increased need for engineering functions due to "new businesses," GSWC witness P. Scanlon stated, "No." However, GSWC data response contradicts Mr. Scanlon's testimony and cites the heavy workload caused by increase of new businesses, as follows:

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[30] *Id.* at 6 to 8.

[31] Ex. DRA (SM) -1, 4-25 ll. 3-15.

[32] *See* Ex. 17, GSWC Data Resp. to AMX-29, Resp. 1 and attach.

[33] Ex. GSWC (ALL) -22, 7:4–27.

> *Heavy work load: In addition to approximately $30 M of capital improvements each year, there have been higher volumes of new business projects (Budget Group 60). Many GSWC industrial, commercial, and residential customers tried to re-develop or improve their properties. The total number of new business projects applications totaled more than 164 from January 2003 through September 2005. That is an increase of 52% when compare to the total of new business project applications of 108 from 2000 to 2002.* [34]

More specifically, GSWC witness R. Tanner, Vice President of Customer Relations in Region 1, stated that the recent growth of New Business in Region 1 since 2000 was "threatening to overwhelm"[35] the Region 1 District Engineer, as follows:

> From 1995-1999, the Northern District had an average of 17.4 projects per year (87 projects total) in New Business. From 2000-2005, the Northern District had an average of 20.17 projects per year (121 projects total) in New Business . . . . From 1995 – 1999, the Northern District New Business project average cost was $47,357. From 2000 – 2005, the Northern District New Business project average cost was $191,494. This increase in number and cost represents an increase in complexity, monitoring and documentation.[36]

In the Rebuttal by R. Tanner, a chart shows that the significant number of "New Business" projects which have taken place and continue in the Northern District from 2000 to 2005, have totaled over $23 million in Region 1 alone.[37] According to Mr. Tanner, each of these projects requires daily field inspection, coordination with other

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[34] GSWC Data Resp. to AMX-32, at 2, dated Mar. 16, 2007(cited in DRA Santa Maria Rept., 4-57 ll. 16-26 and 4-58 ll. 1-16.

[35] Ex. GSWC (ALL) -19, 6:16–17, R. Tanner Rebuttal ("

[36] *Id.,* 5:11–19.

[37] *Id.,* 7:16–26 (chart entitled, "New Business Summary, By Year, By Location").

utilities and city/county departments, coordination with local field staff, and the scheduling of contractors.[38]

Therefore the record shows that "New Business" is driving the need to have CH2M HILL prepare the Region 1 and other Master Plans. The $23 million of New Business over the past five obviously is causing significant changes in Region 1's water systems and placing such demands on GSWC engineers that compel GSWC to go outside and hire CH2M HILL to plan for the changes from the New Business.

However, as Mr. Scanlon and Mr. Tanner both testified, the engineering responsibilities and permitting activities are the responsibility of the developer. The ratepayers should not have to pay for CH2M HILL's services in planning for the $23 million of New Business. the ratepayers should not have to bear the rate burdens. The developers or GSWC are responsible for paying CH2M HILL.

Therefore, DRA recommends that the Commission deny GSWC request for recovery of the expenses for CH2M HILL to prepare 2007 Master Plans for Orcutt or any other Region 1 water system. The record proves that hiring CH2M HILL is actually in response to the $23 million of New Business. Developers or GSWC and not the ratepayers should pay for CH2M HILL's preparation of the Master Plans.

5. Contingency

5.1 Background

For the Santa Maria CSA and in each of the rate cycle years 2007 – 2009, GSWC is requesting an amount for funding unexpected capital expenditures or cost overruns on known projects, that equals to 10 % of the Blanket Capital Budget Items. Those amounts are as follows: $39,000 (2007), $37,000(2008), and $34,000 (2009).[39] DRA recommends instead the following contingency amounts which are based on 5% of the Blanket Capital Budget Items: $29,000 (2007), $33,000 (2008), and $$29,000 (2009).

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[38] *Id.,* 7:11–14. It is puzzling why GSWC substituted Patrick Scanlon, the Vice President of Customer Relations for Region 2, in place of Roscoe Tanner, the Vice President Customer Relations for Region 1, to testify regarding the hiring CH2M HILL for Region 1 work.

[39] Ex. GSWC (ALL) -8, 94:1–2, 100:9–12, and 106:7–10, E. Gisler Prep. Test./GSWC.

Although GSWC discuses contingency "equal to 10 % of the Blanket Capital Budget," GSWC testimony proves that GSWC is also applying the 10 % contingency budget to cost overruns of capital projects.[40] Therefore, the DRA Santa Maria Report analyzes GSWC use of the 10% contingency budget for blanket projects and stand-alone major capital projects.

5.2 DRA Recommendations

DRA's recommendation of a 5% contingency rate based on facts and law that are analogous to those determined in a prior GRC Decision re GSWC's Region 3, D. 06-01-025 (dated January 12, 2006).[41] In that prior Decision as here, GSWC proposed a "10% adder in its capital budgets for 'contingency.'" In D.06-01-025 and in this proceeding, GSWC is using the contingency amounts to fund not only unexpected capital expenditures but also cost overruns of a capital project.[42]

In rebuttal, GSWC witness E. Gisler confirmed two instances in Region 1, when GSWC depleted the contingency funds and had to "reappropriate" funds from other projects to cover the cost overruns of another project.[43] Based on the authority cited by GSWC in rebuttal, the contingency fund "reflects a management judgment allowance to avoid project cost overruns to ensure that the owner is not required to reappropriate additional funds."[44]

The depletion of GSWC's contingency funds evidences in this proceeding as in D.06-01-025, that "accurate budgeting and cost containment are critical management

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[40] Hr'g Tr. vol. 10, 737:6–28 and 738:1–6, June 28, 2007, E. Gisler/GSWC (examples of contingency budget applied to cost overruns of capital projects).

[41] *See* DRA (SM) -1, 4-46 to 4-48, DRA Santa Maria Report.

[42] *See* GSWC (ALL) -8, 17:9–12, E.Gisler Prep. Test.

[43] Hr'g Tr. vol. 10, 737:6–28 and 738:1–6, June 28, 2007, E. Gisler/GSWC (confirming instances of reappropriating funds).

[44] *Id*. at 737:7–10, citing Ex. GSWC (ALL) -22, 9:4–6 and n11 (Assn. for the Advanc'mnt of Cost Engin'rs of Cost Engin'rs, Conting.and Cap. Cost Estimates (Mar. 1995), p. 1, sec. I, para.4.")

functions" requiring additional attention from GSWC management."[45] Yet, GSWC has presented no evidence of improving the accuracy of its budgeting or cost containment, which as DRA noted are available, cost-effective alternatives that could reduce the cost overruns and the need for a 10% contingency.[46] Further, as in D.06-01-025, even though DRA recommended disallowing GSWC 10% contingency rate, GSWC did not provide any historical analysis of GSWC's contingency budget expenditures showing a breakdown between budget overruns and unanticipated projects.[47]

Therefore, DRA recommended the same contingency rate of 5% as the Commission held was appropriate in D.06-01-025. In this proceeding, GSWC is continuing its pattern and practice of using the contingency budget as "cushion for poor budgeting" as was the case in D.06-01-025. The Commission should uphold its policy objectives in D.06-01-025 by denying GSWC proposed 10% contingency rate and adopt the same 5% contingency rate as was held in D.06-01-025.

6. Woodmere Plant-Backup Power

6.1 Background

GSWC is requesting rate recovery of $559,000 in 2009 for the purchase and installation of a 500kW diesel-power generator at the Woodmere Plant site. Two wells at the Woodmere Plant site, which are major producers for the Orcutt System, are equipped with emergency generators. Ten thousand or more customers rely on the Orcutt Hill Reservoir and production from the two wells at the site. During high water demand

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[45] *Id.* 4-47:21–23, *citing* D. 06-01-025 at 32 (mimeo).

[46] *Cf.* Hr'g Tr. vol. 10, 738 to 740, June 28, 2007, E. Gisler/GSWC with DRA (SM) – 1, 4-46 ll. 4–13 (no showing of other available and cost-effective alternatives considered).

[47] *Id.* at 739:17–28 and 740:1–9 (no breakdown of contingency budget expenditures between budget overruns and unanticipated projects included with rebuttal).

conditions, the system's water supply would currently be depleted after approximately 3.5 hours without power, assuming no fire flow situation.[48]

6.2 DRA Recommendation and Findings

DRA recommends disallowing all of GSWC's recovery request of $559,000. Generally GSWC failed to support its claims with data that showed its request as reasonable and justified. For example, no explanation was provided for how GSWC determined the system's water supply would be depleted after approximately 3.5 hours without power.[49] And DRA found that it would take approximately 5 hours to deplete the water supply in the system, if the total capacity of the Orcutt Reservoir (1.5 million gallons) and the two groundwater we*lls, Mira Flores Well 2, and 5, wh*ich are equipped with emergency generators (1,850 GPM) were also considered and the maximum day demand were assumed to be 7,279 GPM.[50] However, GSWC did not provide electrical utility records documenting the date and duration of power outages in the area, to support its claim of an average of two power outages per year.[51]

On rebuttal, GSWC did not present any more data than what had been provided DRA prior to the hearing. Instead, only following speculative opinion was given:

> Also, DRA recommends disallowing Woodmere Plant - Backup Power, an emergency generator proposed for the Orcutt System in 2009. It appears to GSWC that DRA has made a blanket rejection of all three projects for the Orcutt System – projects that would provide necessary redundancy and additional reliability to existing GSWC customers.[52]

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[48] Ex. DRA (ALL) -17, GSWC Data Resp. to AMX-36 and attach. (dated Mar. 29, 2007), citing Reg. 1 Santa Maria Workp'prs vol.2, tab "Ratebase," sheet 206 ("Proj: Woodmere Plant-Generator").

[49] *Cf* Ex. DRA (SM) -1, 4-40 ll. 7–9 (no support for claimed 3.5 depletion time) and *id.* GSWC Data Resp. 3 and attach. entitled "Q3" (unlabeled and unexplained multiple columns of figures).

[50] *See* GSWC Data Resp. to AMX-25, Resp. 3, dated Mar. 21, 2007.

[51] *Cf* Ex. DRA(SM) -1, 4-40 ll. 9–15.

[52] Ex. GSWC (ALL) -22, 1096:16–20, E. Gisler Rebuttal/GSWC.

Therefore, the Commission should deny the project cost of $559,000 for the Woodmere Plant-Generator. As stated above, GSWC has failed to carry its burden of proof.

7. Orcutt Well (Increased Capacity)

7.1 Background

GSWC is seeking $279,000 in Test Year 2008, which is its share of the total costs estimated for increasing the capacity of a new well by an additional 150 gallons per minute (GPM). A developer has proposed to construct approximately 700 homes in the CSA served by the Orcutt System (Orcutt) and will contribute to drill new well having an 850 GPM capacity to meet the development's water needs. Notwithstanding this new housing development, GSWC claims that existing customers are experiencing a shortage of water supply, which justifies the following proposed project: widen the diameter of the well, increase the size of the pump, and expand the capacity of the electric supply with the objective of increasing the new well's supply from 850 GPM to 1,000 GPM to help meet the demand of existing customers.

7.2 DRA Recommendation and Findings

DRA recommends disallowing GSWC's $279,000 request for the reasons stated in its Santa Maria Report.[53] GSWC has not proven that existing customers are experiencing a water supply shortage. Instead, it appears the new housing developments in Orcutt are straining the Orcutt infrastructure and creating the need for the proposed new well. Even though this project would be unnecessary but for the new housing development, GSWC wants the ratepayers to bear the burden of GSWC's share of the costs. These incremental expenses should be the developer's sole responsibility.

GSWC cites its Orcutt Master Plan in support of its claim that the "ultimate max day demand cannot be met by existing facilities." However, DRA found that "ultimate demand" is inappropriate to use in this GRC, because the rate cycle is only for three years. The "ultimate demand" consists of the water supply needed when a regional area

[53] DRA (SM)-1, 4-29 to 4-34, DRA Santa Maria Rept. on Ops.

reaches its maximum growth capacity: i.e., when no further development will be permitted in Orcutt.[54]

In rebuttal GSWC did not define "ultimate demand"; gave no reasons for using "ultimate demand" instead of "maximum day demand," particularly when the Orcutt System Master Plan uses "Max. Day Supply (GPM) to evaluate water supply needs.[55] Moreover, GSWC Further, GSWC Workpapers prove that during the period 2003–2006, the average customer increase in Orcutt only 282[56] did not present any data or other proof that "ultimate demand" was or would be achieved in the CSA served by the Orcutt System CSA within the present rate cycle period.[57] Therefore, GSWC has failed to justify this project as reasonable.

Second, the 1995 Orcutt System Master Plan shows GSWC had sufficient water supply in 1995. In that year, the available water supply in the Orcutt System was 11,425 GPM, and existing maximum day demand was 7,940 GPM.[58] GSWC has not proven that a water shortage has occurred at any time from 1996 to the present.

In a data response, GSWC provided DRA an excerpt from the 2004 "Rice Ranch Water Facilities Evaluation" (2004 Evaluation) showing demand in Orcutt for water was growing and diminishing supply capacity.[59] However, the Santa Maria Workpapers disregarded the 2004 Evaluation and relied solely on the 1995 Orcutt Master Plan data.

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[54] *See id.* at 4-30 ll. 10–14 ("ultimate demand" inapplicable).

[55] GSWC Santa Maria Workp'prs vol. 2, tab "Ratebase," sheets 162 & 169 tbl.1, "Orcutt Sys." (Jan. 2007).

[56] DRA (SM)-1*,* 4-35 ll. 23-24 n.67*,* DRA Santa Maria Rept on Ops. (citing "GSWC's workpapers of Santa Maria, Sales Data in Revenue Section," *available in* GSWC CD-ROM, "Updated Spreadsheets A.07-01-009," folder: "Sales," file: "SMsales.xls," spreadsheet, "GSWC Santa Maria CSA, Recorded Aver. Number of Cust.," Cells: P25 through S25, respectively, 2003: 12,815.9 and 2006: 13,097.7, diff. = 281.8 cust. increase over 3 yrs).

[57] *See* Ex. 22, 101:1–4, E.Gisler Rebuttal/GSWC (no reasons given for using "ultimate demand" parameter).

[58] *Supra* GSWC Santa Maria Workp'prs at sheets 169 tbl.1, "Orcutt Systm," and 175 tbl.7, "Existing Max. Day Supply."

[59] Ex. 17, GSWC Data Resp. to AMX-31, Data Resp. 2 (Mar. 30, 2007).

To stay consistent with GSWC's approach, the DRA findings are also based only on the 1995 Orcutt Master Plan and not the 2004 Evaluation.

The 2004 Evaluation was available both before and after GSWC filed its GRC Application in January 2007, but GSWC waits until March 2007 to provide DRA with an excerpt from it and in June 2007 presents a full version of it in its Rebuttal. GSWC violates the Rate Case Plan's requirement to present all necessary supporting data by the time its Proposed Application is filed.[60] GSWC has prevented DRA from effectively reviewing this 2004 data, and consequently the Commission should give it little weight.

Moreover, GSWC changes horses in midstream. Although its Workpapers rely only on the 1995 Orcutt Master Plan data, in rebuttal GSWC switches to the 2004 Evaluation data to arrive at a "lost water supply" of 3,933 GPM and claims that DRA's comparable amount of 3,569 GPM is mistaken. Also based on the 2004 Evaluation, GSWC asserts that the water surplus in Orcutt is 205 GPM as opposed to DRA's 817 GPM.

However, all of DRA's figures of 3,569 GPM and 817 GPM are based on the 1995 Orcutt Master Plan.[61] GSWC's data response which provided the 2004 Evaluation, did not state GSWC was dispensing with its Workpapers and presenting different lost water supply or water surplus amounts based on the 2004 Evaluation.[62]

It is not fair play for GSWC to present one set of data, the 1995 Orcutt Master Plan, as the support for its project, and then switch to another data base without timely informing DRA to give it a chance to examine and prepare to meet this change in the hearing. Moreover, GSWC cannot claim DRA is wrong, because DRA was uninformed that GSWC was altering the data support for its proposal. Therefore, the Commission should give GSWC's claims of "lost water supply" and "water surplus" in Orcutt little

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[60] D. 04-06-018, App., *available at* 2004 Cal. PUC LEXIS 276,*64

[61] GSWC (ALL)-22, page-101, lines 15-27

[62] *See* Ex. 17, GSWC Data Resp. to AMX-31, Resp. 2, dated Mar. 30, 2007 (GSWC only stated, "growth in the area has increased the demand, and the supply capacity has been diminished").

credibility. And even if *arguendo* GSWC's water surplus of 205 were considered, this certainly proves no water shortage in Orcutt, which GSWC claims is the justification for this project.

At the hearing, DRA witness M. Aslam was prevented from correcting his table of maximum day supply in the Santa Maria Report at p. 4-31. DRA would like to take this opportunity to present the correct table which is based only on the 1995 Orcutt Master Plan data, as follows:

Name of Well	**Reason of Loss**	**Max. Day Supply (GPM)**
Evergreen # 1	Nitrates	525
Evergreen # 2	Nitrates	815
Sunrise	Nitrates	753
Mira Flores # 3	Old Age	841
Mira Flores # 1	Partial Loss due to Nitrates	673[63]
Total		3,607

Instead of the lost water supply stated as 3,569 GPM in the table at DRA Santa Maria Report, page 4-31, the correct amount is 3,607 GPM. Based on this correction to 3,607 GPM of water supply lost, DRA calculates a shortage of 122 in 1996, based on the GSWC Workpapers stating a Company surplus in 1996 of 3,485 GPM.[64].

[63] As noted in DRA's report (GSWC(SM)-1, page 4-31) this figure is based on GSWC's data response to DRA's data request, AMX-31 (Resp. 5).

[64] 3,607 – 3,485 = 122 GPM.

The story continues. In 2004, GSWC built a new well, the Mira Flores #7 with water capacity of 900 GPM.[65] which converts the 122 shortage into a surplus of 778 GPM.[66] While GSWC considers the Mira Flores #7's 900 GPM, it does so in the context of the 2004 Evaluation data which is inconsistent with its Workpapers.[67] Therefore, GSWC has failed to prove that a current water shortage exists in Orcutt.

Further, GSWC's Rebuttal does not identify the source of its data in the comparison table indicating lost water supply as 3,933 and total surplus as 205.[68] Therefore, GSWC has failed to prove a water supply shortage exists among the existing ratepayers in the Orcutt System, which even the 2004 Evaluation fails to support. Apparently, this is why GSWC Workpapers cited the 1996 Orcutt Master Plan instead of the more recent 2004 Evaluation in support of the project.

GSWC acknowledges reactivating a rehabilitated in 2003 the Evergreen Well # 1 and in 2004 building a new well, the Maria Flores # 7.[69] However, DRA requested production data for Evergreen Well #1, GSWC only stated that that Well "is presently not in use" thus precluding DRA from evaluating the impact of this and possibly other reactivated wells on the water supply in Orcutt System.[70]

Therefore based on above stated reasons and findings, as well as those in its Santa Maria Report, DRA recommends disallowing rate recovery for increasing the capacity of the Orcutt Well from 600 to 1,000 GPM at a cost of $279,000.

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[65] GSWC (SM)-1, page 4-31 ll.18-21 and 4-32 ll.

[66] 900 – 122 = 778 GPM.

[67] Ex. 22, 102:16, E.Gisler Rebuttal/GSWC.

[68] Ex. 22, 102:9–17 tbl., E.Gisler Rebuttal/GSWC (data sources unidentified).

[69] *Cf* DRA (SM)-1, 4-32 ll.19–22 & n.62 (Evergreen Well #1) and 4-31 ll. 18–19, DRA Santa Maria Rept on Ops., *with* GSWC Data Resps. to AMX-31, Resps. 3 (Evergreen #1) and 6(Mira Flores #7).

[70] *Id.* at Resp. 3.

8. Orcutt Hill Reservoir (New)-Capacity Increase

8.1 Background

GSWC requested an amount of $335,000 in the year 2008 for the purposes of increasing the capacity of a new welded steel storage tank from 1.2 million gallon (MG) to 1.5 MG. GSWC wants to increase the size of the storage tank, claiming that the current storage in the Orcutt System does not provide sufficient redundancy in case of an emergency. This is an extension of the Orcutt Well project described above and is related to the same development of more than 700 homes in the Orcutt System. As with the Orcutt Well, GSWC claims the need for this project is because current storage needs are insufficient for its existing customers.

8.1 DRA Recommendations and Findings

DRA recommends disallowing rate recovery for this project because GSWC has failed to carry its burden of proving that current storage needs are insufficient for its existing customers. DRA's findings are amply stated in its Santa Maria Report, and GSWC has failed to rebut them or provide data supporting its claims of increased storage capacity. DRA's findings are unrefuted in this proceeding.[71]

Orcutt has sufficient reliability and redundancy that does not require the additional storage proposed by GSWC. The redundancy in Orcutt can be achieved by an increase in source capacity (extra pump) or in storage capacity (reservoir).[72] In the discussion above regarding the Orcutt Well, DRA established Orcutt currently has a water supply surplus. Corroborating this fact, the 2004 DHS Annual Report re Orcutt concluded that based on 2003 data, GSWC could serve 1,151 more customers before another source of water is needed.[73] According to GSWC Workpapers, during the period 2003–2006 the average

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[71] DRA (SM)-1, 4-34 to 4-36, DRA Santa Maria Rept on Ops.

[72] *See* DRA (SM)-1, 4-35:3–15 & n.65, DRA Santa Maria Rept on Ops. (citing GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheets 180–183).

[73] *Id.* at 4-35 ll. 20–23 (citing GSWC Master Data Resp. to Quest. IV, (B), (1.b)).

customer increase in Orcutt is only 282.[74] None of the above stated facts were discussed in GSWC's Rebuttal and therefore are unrefuted. GSWC has failed to justify this project as reasonable which warrants its disallowance.

LOS OSOS PLANT ISSUES

1. Improvements to the Lewis Lane Electrical

1.1 Background

GSWC is seeking to recover $267,000 in Test Year 2007 for electrical improvements at the Lewis Lane Plant site to allow for the simultaneous operation of the two wells located there. GSWC claims that "[t]otal storage volume in the Edna Road System is currently 290,000 gals which is below the needed storage capacity of approximately 400,000 gallons according to Title 22, California Code of Regulations." To overcome this storage shortfall GSWC further asserts, "new storage must be built or existing source capacity must be increased to at least 700 GPM." The current motor control center at the site can only operate one of the two wells at a time, which limits the total system-wide source capacity to approximately 500 to 550 GPM at any one time. According to GSWC Workpapers,

> The ability to run both wells simultaneously will increase the total source capacity to the required level [i.e., 700 GPM]. . . . To operate both wells at the same time, site electrical improvements must be made to the electrical panel.[75]

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[74] *Id.* at ll.23–27 (*ref* DRA (SM)-1*,* 4-35 ll. 23-24*,* DRA Santa Maria Rept on Ops. (citing "GSWC's workpapers of Santa Maria, Sales Data in Revenue Section," which specifically is a MS Excel spreadsheet found*available in* GSWC CD-ROM, "Updated Spreadsheets A.07-01-009," spreadsheet "Av. Cust. folder: "Sales." *CD-ROM, Folder: Sales,, Excel*," file: "SMsales*,*.xls," spreadsheet, "GSWC Santa Maria CSA, Recorded Aver. Number of Cust.," Cells: P25 and S25, respectively, 2003: 12,815.9 and 2006: 13,097.7, diff. = 281.8 cust. increase over 3 yrs))

[75] GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheet 138 (Proj: Lewis Lane Electrical") (Jan. 2007).

1.2 DRA Recommendations and Findings

According to Title 22 of the California Code of Regulations, section 64562,

> (a) Sufficient water shall be available from the water sources and distribution reservoirs to supply adequately, dependably and safely the total requirements of all users under maximum demand conditions before agreement is made to permit additional service connections to a system.
>
> (b) To ascertain this, first determine the total capacity of the existing source by procedures prescribed in Section 64563 and determine the total storage volume of the existing distribution reservoirs. Then determine the needed source capacity and the needed storage volume by procedures prescribed in Section 64564. The total available source capacity shall not be less than the needed source capacity.

When DRA requested data showing how GSWC calculated the "needed storage capacity" of 400,000 gals. or the "existing source capacity increased to 700 GPM" pursuant to Title 22 of the California Code of Regulations, GSWC responded on February 20, 2007, by referring DRA to the enclosed 1999 Los Osos Master Plan (Edna Road Sytem).[76]

However, that Master Plan did not explain how GSWC applied 22 CCR section 64562 et al. (Title 22), and did not provide the data supporting GSWC's claim that it had to have needed storage capacity of 400,000 gallons or an existing source capacity increased to 700 GPM.[77] In fact, the 1999 Master Plan stated the Title 22 requires storage of 370,000 gallons and an "ultimate storage" of 460,000 gallons in 2010. Similarly, under Section 9.1 of the same Master Plan, it was recommended that the Edna Road System needs to expand supply to a minimum total of 589 GPM by 2010. But no data supported these figures and no showing was made in the 1999 Master Plan of the calculations performed pursuant to Title 22.[78] In addition, the Master Plan did not show

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[76] DRA (LO) -1, 4-3 ll. 1–11.

[77] Ex. DRA (LO) -1, 4-3 ll. 5–11.

[78] *See* DRA (LO) -1, 4-3 ll. 5–11.

that how the water supply and water storage capacities were quantitatively related to of set each other.

Equally inexplicable was GSWC's rebuttal. While GSWC presented a table of production at two wells, GSWC did not show how these figures supported its claim that Title 22 requires needed storage capacity of 400,000 gallons or an existing source capacity of 700 GPM.[79]

On rebuttal, GSWC for the first time presented a chart claimed as provided by the "California Waterworks Standards (Title 22 CCR, Div 4, Chap 16)" and attached as Exhibit 7. This chart purportedly shows "the required pumping capacity to meet maximum day demand (excluding fire requirements) is 750 GPM (using the maximum average monthly air temperature of 70°F, for 599 customer service connections)."

GSWC did not provide any additional specific citation to Title 22. However, legal research shows that a chart such as Exhibit 7 is only required by 22 CCR Section 64564,

> "[w]hen the existing records of the water system are inadequate to determine these values [i.e., needed source capacity and needed storage volume] and no records of a similar water system can be found to supplement the existing records."

Otherwise, "needed source capacity and needed storage volume shall be determined from existing water use records of the water system." In this proceeding, GSWC has not presented its existing records to support its claimed "needed source capacity" or "needed storage volume" either before or during the hearing, despite DRA data requests. Further, GSWC has never justified its use of Exhibit 7 by showing that its existing records are inadequate and that no records of a similar water system can be found. The Commission should give little weight to Exhibit 7.

Therefore, GSWC has failed to justify the need for Lewis Lane Electrical Project of $267,000. Title 22 does not specifically require the claimed storage capacity of 400,000 gallons or the source capacity of 700 GPM. GSWC has not provided the existing

[79] Ex. 22, 62:1–22, E. Gisler Rebuttal (no supporting data and relevancy to Title 22 unexplained) and Hr'g Tr. vol. 11, 786:5–9, June 29, 2007 (lack of supporting data).

water use records that support the reasons given for the Project. And GSWC has laid no foundation facts or law to establish relevancy and materiality of the Exhibit 7.

Further, DRA found that needed source capacity of 700 GPM is associated with a storage capacity of 400,000 gallons, which under Title 22 would not be required until 2010 (that is not very far away given how long construction takes), and existing source capacity of 500 to 550 GPM when considered with the existing storage capacity would be sufficient to meet peak demand in the Edna Water System.[80]

Even with the minimum historic water supply from these wells— the Lewis Lane Wells and Country Club Wells — the existing reservoir capacity of 290,000 is sufficient to last for approximately 483 minutes while the peak demand event only lasts for 34 minutes. For example, GSWC data shows that the peak demand event lasted form 06:06 to 06:40 hours, i.e., a 34 minute time span. If the water tanks are at full level it will take them approximately 516 minutes (290,000 gallons/562 GPM) to empty in providing 500 GPM to the system. Therefore, the system was able to meet peak demand.[81]

In Rebuttal, GSWC presents for the first time in this proceeding an historical water production data for the Lewis Lane wells and Country Club well[82] and states:

> A peak demand event was identified between 06:06 and 06:40 hrs from our historical SCADA data for 8/3/06 maximum day listed above. At this time, the water level in both tanks was dropping, and the Country Club well and one Lewis Lane well were running. The peak demand based on this observation on that date was 1062 GPM. Of this demand, 592 GPM was met from storage, and 470 GPM from the wells. In this instance, the system was able to meet the peak demand (without the fire flow). However, for system reliability, both the Lewis Lane wells are needed, because if

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[80] *Cf id.* at 4-3 ll. 12–27 and 4-4 ll. 1–5 (relation betw source and storage capacity explained) with Ex. 8, 57:3–12, E. Gisler Prep. Test.; Ex. 22, 60–64, E. Gisler Rebuttal, and Hr'g Tr. vol. 11, 780–789, June 29, 2007(no explanation or existing water use records provided).

[81] *See* Ex. 22,63:15–22, E.Gisler Rebuttal/GSWC

[82] *Id.* at 62:1–28.

the active well failed, we would not be able to meet peak demands.[83]

However, this testimony proves that the Company's current resources in the Edna Road System are more than sufficient to meet peak demand periods lasting considerably longer than the 34 minutes period mentioned above. For example, according to the water production data presented in GSWC Rebuttal, the minimum water production from Lewis Lane well was 420 GPM on 8/3/06, similarly, on 8/5/04 the minimum production form Country Club well was only 19 GPM. Even at these historic minimum water production levels, the wells can provide 439 GPM of water. With the existing 290,000 gallon water reservoir, the peak demand of 1062 GPM can be met for 465 minutes.[84] This is ample water supply reliability in the Edna Road System under existing resources.

2. Cuesta-by-the Sea Loop Closures-Phase I

2.1 Background

This project, the $128,000-2007 Budget Item No. 53, is the first phase of a series of proposed main extensions that will connect dead-end lines and provide a 'looping' distribution system which will improve fire flows and reduce water concerns. Twelve locations have been identified for the loop closures. DRA recommends allowing only $23,000 of the requested $128,000.

2.2 DRA Recommendations and Findings

GSWC failed to support its claims with any data. For example, no records documented the nature or scope of the alleged "water aging concerns." No explanation is given of how the alleged fire flow requirements affected the Cuesta-by-the-Sea water system.[85]

GSWC gives inconsistent descriptions of the hydrants that will improve their fire flow due to this project. First, in Workpapers, GSWC provides a copy of fire flow tests

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[83] *Id.* at 63:15–22.

[84] 290,000 gallons / (1062-239) GPM = 465 minutes.

[85] Ex. DRA (LO) -1, 4-5 ll. 10–24, and *generally* 4-4 to 4-10.

for five hydrants.[86] However, these are not the hydrants whose fire flow will improve as a result of the project, according to n GSWC data response to AMX-5.[87] At the hearing, GSWC did not to explain these inconsistent claims.[88]

On rebuttal, GSWC then indicates another six hydrants whose fire flow would improve under the project.[89] But most of these hydrants were not included in GSWC workpapers or data response.[90] Furthermore, GSWC only provided fire flow tests for the five hydrants presented in its Workpapers, and those tests were performed in 1992, 1993, 2000, and 2003.[91] Therefore, GSWC's claim that this project will improve fire flows for various fire hydrants is not credible, no current fire flow tests support any of the hydrants mentioned.[92]

As for the CDF/San Luis Obispo County Fire Standard 1 (Standard 1), that document lists various "exceptions" to the required flow quantities. As DRA pointed in its Los Osos Report at page 4-5, lls 16–24, GSWC fails to explain how this Standard 1 specifically affects the Project and whether the proposed fire hydrant locations subject to this Project fall under one of the "exceptions" stated in the Standard 1or not.[93]

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[86] GSWC Los Osos Workp'prs (Jan. 2007), vol. 2, tab. "Ratebase," sheets 175–179 (hydrant nos. 72, 77, 178, 187, 240).

[87] Ex. DRA (ALL) -7, GSWC Data Resp. to AMX-5, Resp. 2 (dated Feb. 27, 2007) (hydrant nos. 72, 72, 187, 187, 9, and 9 (same no. but different locations)).

[88] Hr'g Tr. vol. 11, 765:12–20, June 29, 2007 (no explanation of the inconsistency between Workpaper sheet 176 and GSWC Resp. 2 to AMX-5).

[89] Ex. 22, 32:14–19, E. Gisler Rebuttal ref. tabl. at id. at 31:2–19 (hydrant nos. 6, 14, 72,77, 187, & 207).

[90] Cf Ex. 22, 31:4–19 and 32:14–19,E. Gisler Rebuttal with Ex. DRA (ALL) -7, id. (hydrant nos. 6, 14, & 207 not included in GSWC Workpaper sheets 174–179; hydrant nos. 6, 14, 72, & 207 not included in Data Resp. 2).

[91] See supra note 7 (Workpaper sheets 175–179).

[92] Ex. DRA (LO) -1, 4-6 ll. 6–14.

[93] Ex. DRA (LO) -1, 4-5 ll. 16–24 (DRA analyzes Standard 1).

In rebuttal, GSWC explains that Standard 1's minimum fire flow requirement for one and two family dwellings in Los Osos has been reduced to 750 GPM and nine hydrants in the table preceding this statement in the Rebuttal do not currently meet this requirement. However, this is new information given for the first time in rebuttal, thus precluding DRA from questioning this reason before the hearing. The Commission should give this information little weight, because as noted above GSWC has not proven with current fire flow tests that the project would improve any hydrants mentioned by GSWC.

DRA also found GSWC's project cost estimate of $128,000 unsupported by such data as work-time records and time allocation studies, to justify the hourly rates and time estimates for in-house engineering costs.[94] While GSWC presents a breakdown of its project cost estimate on rebuttal, it fails to explain why this information could not have been provided at the time its Application was filed, as the Rate Case Plan requires. Second, this table remains a set of figures without any supporting records or documentation showing, for example, the source and calculation of the "hours," "days," and "hourly rate" estimates. The Commission should give little weight to this table and find the $128,000 unjustified.

While GSWC's lack of support for its cost estimations is quite evident, the Company also lacks the justifications for the need of this project. For example, on page 182 of its workpapers of Los Osos, the Company presented a study performed by AWWA to support this project. When DRA Report noted that the cited AWWA study does not present any support for the project,[95] the Company conceded that the cited AWWA study was unrelated to the "looping" project.[96]

In addition, GSWC's already booked the $22,392 in its rate base that was spent on the design of the Phase I, and Phase II of this project under General Work Order (GWO)

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[94] Id. at 4-7 ll. 22–28 and 4-8 ll. 1–8.

[95] DRA (LO)-1, 4-6 to 4-7,

[96] GSW (ALL)-22, 33 ll. 8-16, E.Gisler Rebuttal.

14600190[97]. In this application GSWC is requesting $6,408[98] and $6,101[99] in year 2007 and 2009, respectively, for the Design once again. This amounts to "double billing" the ratepayers for the same expense.

Lastly, GSWC's witness, Gisler stated on the witness stand that the Company has served the Cuesta-By-The-Sea service area since 60s. However, historically, GSWC spent only nominal budget of $22,392 in the last 10 years, which is considerably less than the proposed $128,000 for this project. GSWC has explained with any quantitative data what circumstances have developed to justify such a sudden and enormous rise in capital cost. This proves no actual urgency exists regarding dead-ends or fire flow in the area. Under these circumstances, DRA's recommended amount of $23,000 is appropriate budget so that the Company could start looping its system in small segments.[100]

2.2.1 Hydrants

For the reasons stated in its Report, DRA recommends that the Commission approve $9,000 instead of GSWC's request of $11,000.

2.2.2 Master Plan-Los Osos and Edna

For the reasons stated in this DRA's Report[101] and articulated above regarding the preparation of the 2007 Santa Maria Master Plan, DRA recommends denying all of GSWC's $159,000 request for this project.

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[97] GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheet 55. GSWC also acknowledge that the design was completed under GWO# 14600190. *See* GSW (All)-22, 33:20-23, E. Gisler Rebuttal.

[98] *Id.* at sheet 169.

[99] GSW (Lo)-2, Sheet 254

[100] *See* DRA (LO)-1, 4-10 ll.: 6-12

[101] Id. at 4-17 to 4-20.

3. Contingency

For the reasons stated above in this Opening Brief regarding the issue of Contingency requested for the Santa Maria CSA, DRA recommends denying GSWC's $7,000 requested contingency budget.

4. 10th Street and Nipomo-Santa Ynez Interconnection with LOCSD

4.1 Background

GSWC requests two amounts of $78,000, (is this for a different year than the second number?), and $145,000 in 2008 for the costs of providing two interconnections resulting from the proposed Los Osos Community Services District (LOCSD) inter-ties with the GSWC systems. Respectively, the two projects are named the "10th Street Interconnection-LOCSD" (10th St Interconnect) and the "Nipomo-Santa Ynez Interconnection-LOCSD" (NSY Interconnect).[102] The interconnections are part of an "Interconnection Implementation Plan" (Plan) which is one of the principal settlement outcomes of an Interlocutory Stipulation Judgment (Judgment) resulting from an unspecified "current basin adjudication."[103] The Plan involves "the water purveyors within the Los Osos Basin: GSWC, LOCSD, and S&T.[104] For the reasons and facts stated in DRA's Los Osos Report, DRA recommends disallowing both project requests.[105]

4.2 DRA Recommendations and Findings

4.2.1 GSWC is obstructing the GRC process.

When DRA requested a copy of the Plan and any related amendments or supplements; a reference to Commission approval of the Plan; and a copy of the

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[102] GSWC Los Osos Workp'prs vol.2, tab "Ratebase," sheets 203–224 (10th St Interconnect) and 225-247 (NSY Interconnect).

[103] Id. at sheets 203 and 225.

[104] *Supra* note 18, Los Osos Workp'prs sheet 203 and 225.

[105] Ex. DRA (LO)-1, 4-27 to 4-32.

Judgment, on March 2, 2007 GSWC responded only by stating that it "has not entered into an Interconnection Implementation Plan with the Los Osos Community Services District yet" and not include a copy of any of the requested documents.[106] GSWC has not produced these records during these proceedings. Without this data, DRA and the Commission cannot factually and objectively ascertain if the Judgment and Plan require GSWC to pay all of the project expenses or if GSWC, LOCSD, and S&T are sharing theses projects' costs among themselves.

DRA's investigation reveals a possible motive for GSWC reticence. On April 10, 2007, DRA telephoned LOCSD's Utilities Manager, George Milanes. According to Mr. Milanes, historically GSWC has shown no real interest in these two interconnection projects. While initially GSWC wanted to share the design costs with LOCSD, later GSWC abandoned these projects.[107]

In the current Los Osos Basin water rights litigation, these two projects were made an integral part of the settlement, which involves three parties: LOCSD, GSWC, and Sunset Terrace (a small mutual water company serving approximately one hundred customers). According to the preliminary settlement terms, the cost for these projects will be shared by all of the participants, e.g., GSWC will pay 41% of the total costs, LOCSD 48%; and probably S&T the remainder.[108] At the hearing, GSWC witness E. Gisler confirmed that GSWC and LOCSD are sharing the two project costs.[109] But no data specifying the dollar amount of GSWC's share of the project costs has been offered during this proceeding.

Instead of explaining DRA's finding GSWC is sharing the interconnect project costs, in rebuttal GSWC introduces a new and unsupported reason for the two projects:

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[106] Ex. DRA (ALL) -12, GSWC Data Resp. to AMX-11, Resp. 1 (dated Mar. 2, 2007).

[107] DRA (LO)-1, 4-30 ll. 18–24.

[108] *Id.* at 12–24.

[109] Hr'g Tr. vol. 11, 812:25–28 and 813:1–4, June 29, 2007,

"nitrate contamination in the upper zone."[110] In essence, GSWC is relying on surprise (in the form of new information being offered in rebuttal) to justify a project it had the opportunity to fully detail in its initial application. If nitrate contamination is a genuine concern, GSWC should have offered this rational in its initial application, not as a stealth claim in rebuttal wherein DRA's ability to perform discovery is severely constrained. Further, GSWC did not include any data supporting its contamination claim. For example, how many wells in the upper zone are affected by this purported contamination? What data document the scope, intensity, and establish whether the contamination can remediated. Notwithstanding these basic questions, a more fundamental concern arises from GSWC's performance in this case: whether GSWC is obstructing the GRC process in not disclosing the Plan, the Judgment, or the cost-sharing arrangement among the parties.[111]

Further, even GSWC workpapers show the total project cost for the two interconnect projects is considerably lower than as requested by GSWC. According to a letter from George Milanes, LOCSD Utilities Manager, to Warren Morgan, GSWC District Manager, dated February 8, 2006, the budgeted capital improvement costs by the California Infrastructure and Economic Development Bank (CIEDB) presents a construction cost of $138,504 and a design cost of $55,402 for both interconnect projects, or a total project cost of $193,906.[112] The total capital costs for the two projects requested by GSWC is $223,000 — $29,094 in excess of LOCSD's total estimate. In rebuttal, GSWC did not refute LOCSD's estimate or explain the $29,094 difference in

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[110] Ex. 22, 67:8–12, E.Gisler Rebuttal/GSWC

[111] In rebuttal, GSWC also mentioned for the first time in this proceeding the impact of a wastewater treatment plant at full build-out, with reference to a "solute transport model." Ex. 22, E.Gisler Rebuttal/GSWC. Concededly, these ideas may have unspecified importance, but GSWC fails to explain their relevance and materiality to the issue whether GSWC is exaggerating its project requests to the detriment of the ratepayers.

[112] GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheets 213–214 and 218 (CIEDB Proj. Sch., lines "Contract 5-Project 10, LOCSD/Cal-Cities Inter-Ties, Total: $138,504" and "Contract 13-Project 10, LOCSD/Cal-Cities Inter-Ties, Total: $56,402).

project costs.[113] Until GSWC resolves this factual inconsistency — and it has the burden of proof — the Commission should deny rate recovery for these two projects as amounting to unreasonable and unjustified rate burdens.

4.2.2 A host of other data deficiencies are unexplained by GSWC

The two interconnect projects are based on outdated data. A memorandum from a consultant of LOCSD, John L. Wallace & Associates, dated March 8, 2002, presents a set of proposed interconnections based on hydraulic modeling of the LOCSD and GSWC systems dated five years ago.[114] Based on DRA discussions with GSWC employees, it appears that conducting hydraulic modeling is a painstaking process, involving data collection regarding system elevations, size, flow rates, pressure ratings, etc., which needs updating as changes occur in the water system.[115] Rebuttal did not respond to DRA's finding of outdated hydraulic modeling.[116]

Also questionable is GSWC's project cost estimate of $52,500 for 350 feet of 8-inch water pipeline. According to a 2006 proposal by John L. Wallace Associates, no pipeline was included in design details of the projects. Instead, the proposal only shows 660 feet of 8-inch pipeline for another proposed tie-in project at the Mountain View and Santa Ynez location.[117] The Rebuttal testimony did not explain how and why unsupported pipeline costs of $52,000 are part of its rate recovery requests.[118]

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[113] See Ex. 22, 65 to 68, E.Gisler Rebuttal/GSWC (e.g., "needed operational flexibility" was only mentioned).

[114] GSWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheet 221–222, *cited in* Ex. DRA (LO) -1, 4-29, ll. 1–12.

[115] Ex. DRA (LO)-1, *id.* at 4-29 n42 (DRA discussions with GSWC employees, E. Gisler and T. Maughmer).

[116] *See* Ex. GSWC (ALL) -22, 65 to 68, E. Gisler Rebuttal/GSWC.

[117] SWC Los Osos Workp'prs vol. 2, tab "Ratebase," sheets 214–217 *cited in* Ex. DRA (LO)-1, 4-29 ll. 13–18.

[118] *See* Ex. 22, 65–68, E.Gisler Rebuttal/GSWC. (no response to DRA's unsupported pipeline costs finding).

GSWC offered no supporting information regarding the hourly rates and time estimates that provided the bases for its in-house Permitting/Planning, and Engineering Design costs, such as time card records, time allocation study, or past historical documentation for similar projects. The GSWC's Rebuttal did not admit or deny DRA's finding of no data support.[119]

DRA's testimony notes that no data supported GSWC's estimate of the costs of installation by outside contractors. GSWC developed this estimate by multiplying the 350 linear feet and 600 linear feet of pipeline by the unit cost of $150. The unit cost data provided is for another 2007 capital project in Cuesta-By-The-Sea District. Given the fact that GSWC has the burden of proof of establishing the reasonableness of its requests, the Commission should reject this budget item on the grounds that it has failed to meet its burden of proving the reasonableness and the need for this project. Golden State should not be awarded for attempting to flout the Commission's authority.[120]

Based on the above mentioned reasons and facts, DRA recommends disallowing recovery for the two interconnect projects. While GSWC may opine that "[o]ur Material and Labor estimates are based on historical data for projects of similar size and complexity,"[121] it has failed to prove such is the case.

4.2.3 Cuesta-By-The-Sea Loop Closure: Phase II

A description of this project is set forth in DRA's Los Osos Report. DRA incorporates by reference as if fully stated here its recommendation and analyses as presented above and pertaining to the issue "Cuesta-By-The-Sea Loop-Closure."

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[119] *Cf id.*with DRA (LO)-1, 4-30 to 4-32.

[120] *Id.*

[121] Ex. DRA (ALL) -12, GSWC Data Resp.2.

5. Rosina- Nitrate Treatment and Blending Facility Improvements; Skyline Well to Rosina Main Extension; and Pecho Well to Rosina Main Extension

5.1 Background

GSWC is seeking to recover $586,000 in 2009 for a site construction and installation of ancillary equipment to enable Basin Water Ion Exchange at the Rosina Plant to treat nitrate laden water from the Skyline and Pecho Wells. Before entering the distribution system, this treated water will be blended with Rosina well source water. Site improvements will include piping modifications, construction of concrete pads to support salt storage and waste vessels, and accommodations for the Ion Exchange unit.[122]

In two separate project requests, GSWC asks for $277,000 and $198,000 to build in 2009, respectively, (i) a dedicated water main from the Skyline Well to the Rosina Plant to transport nitrate laden water from Skyline Well to the Rosina Plant site; and (ii) another dedicated water main from the Pecho Well to the Rosina Plant to transport TDS water from the Pecho Well to the Rosina Plant.

GSWC is requesting the Skyline Well and Pecho Well water mains as separate, stand-alone projects. However, they are integrally related to one another and the Rosina Plant. Without the water mains from the Skyline and Pecho Wells to the Rosina Plant, no water from Skyline well could be treated with the Basin Water Ion Exchange at the Rosina Plant and no blending of Pecho well can be achieved with the treated water at Rosina well. Therefore, DRA is discussing the three projects stated above as single project so that GSWC rate recovery request is accurately, reasonably and comprehensively evaluated.[123]

DRA found data support for the three projects less than probative. For example, no cost estimation data supports the requested cost of $586,000 for the Rosina Plant project. While a GSWC data response provided a breakdown of the estimated costs and

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[122] Ex. DRA (LO)-1, 4-26.

[123] *See* Hr'g Tr. vol. 11, 822:24–28 and 823:1–3, June 29, 2007 (E. Gisler agreeing it would be reasonable to consider the Rosina Plant and two dedicated water mains as integrated project).

stated the estimates are based on costs from similar projects, the response amounted to no more than a collection of cost items without any support, such as General Work Orders, invoices, payment vouchers, bid summaries, bid evaluations, or other pertinent data, to show the reasonableness and justification for the Rosina Plant project.[124]

Both before and in the hearing, GSWC did come forward with any of the requisite data support. In rebuttal, GSWC testified to the need to add well capacity for the Los Osos System (Unclear, or DRA's the cost analysis?) or DRA's the cost analysis between the proposed project and the alternative of installing a new well. For example, GSWC mentioned a Nitrate Monitoring Program or Seawater Intrusion Study as supporting the need for the well capacity in Los Osos, which had not been provided DRA prior to the hearing.[125] At the hearing, GSWC witness E. Gisler discussed DRA's finding of the least cost alternative to the Rosina and water main projects.[126] However, GSWC offered little substantive data proving the reasonableness of the proposed Rosina Plant project, a more than half-million dollar project. DRA recommends denying GSWC's request of $586,000 for the Rosina Plant project.

As for the capital recovery request of $198,000 for constructing the dedicated water main from Pecho Well to the Rosina Plant, DRA found on the one hand GSWC claiming TDS (define) was contaminating the Pecho Well and on other hand nitrates were affecting the Pecho Well.[127] Although in its rebuttal, GSWC claimed that the Pecho Well is monitored on a monthly basis for TDS, no such monthly monitoring reports were ever presented in the course of this proceeding.[128]

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[124] DRA (LO)-1, 4-36 ll. 20–25 n50 and 4-37 ll. 1-2, *citing* Ex. DRA (ALL) -12, GSWC Data Resp. to AMX-11.

[125] Ex. 22,70:10–15, E.Gisler Rebuttal/GSWC.

[126] Hr'g Tr. vol. 11, 867:27–28 and 868:1–3 , June 29, 2007.

[127] DRA (LO)-1, 4-37.

[128] *Cf* Ex. Ex. 22,73:21–23, E.Gisler Rebuttal/GSWC (Pecho Well monitored monthly for TDS but no such reports presented) with DRA (LO)-1, 4-37 ll. 25–26 ("The Company did not provide

With regard to the Nitrate chart for the Pecho Well presented in Exhibit 22, E. Gisler Rebuttal, at p.74, GSWC has not explained why this data was not included with its March 16, 2007, data response to AMX-17, although two charts showing TDS levels in the Pecho Well were provided at the time. DRA notes that GSWC did not comply with the Rate Case Plan and provide the Nitrate chart at time its Application was filed.

Second, DRA questions the materiality of this Nitrate chart, when it shows the nitrate levels at the Pecho Well has never gone above the MCL of 45 mg/L and GSWC notes that

> these high detections of nitrates were typically associated with periods of inactivity for the well. When the well is exercised, the nitrate concentrations in the water produced reduces to acceptable levels.[129]

Further, GSWC did not rebut DRA findings that the most recent records of the Department of Health (DHS) inspection of the Los Osos system performed on December 14, 2004 indicated no problems with the Pecho Well. These DHS Reports were provided with GSWC Master Data Responses. They indicate that samples for both Nitrate and TDS were normal and only routine sampling schedules were ordered for the Pecho Well regarding Nitrate or TDS monitoring.[130] Therefore, DRA found that GSWC did not prove the need for constructing a dedicated water main from Pecho Well to the Rosina Plant.

GSWC's rebuttal to DRA's cost benefit analysis regarding drilling a new well was not credible. GSWC compared only the $586,000 cost of the Rosina Plant project with the option of drilling a new well under three different scenarios which on average exceed $1 million.[131] However, DRA finds the cost-benefit analysis should include the cost of

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adequate information to support its claims regarding the TDS or Nitrate problem at Pecho Well").

[129] Ex. 22, 74:1–5, E.Gisler Rebuttal/GSWC.

[130] *Cf* DRA (LO)-1, 4-38 ll. 15-19 n55, *citing* GSWC Mast. Data Resp. IV.B.1.b. for Los Osos, with Ex. 22, *id.* at 74:1-28.

[131] *See* GSWC Data Resp. 10 and 11 to AMX-17 (dated Mar. 16, 2007) (cost benefit analysis).

all of three projects and should use the cost of the alternative option i.e. buying land and drilling new well that is supported by the record. GSWC in its cost/benefit model[132] use the cost of $1,875,000 for this option, however, did not provide any support for this amount. While DRA used the value of $1,270,000 for this option that is based on the average of the cost for the three alternative site for the proposed new well provided by GSWC in its workpapers.[133] When the cost benefit analysis is performed with this adjustment, the result drilling a new well.[134]

For the reasons stated above, DRA recommends denying GSWC's recovery requests for the Rosina Plant ($586,000), the Pecho Well dedicated water main to Rosina Plant ($198,000), and the Skyline Well dedicated water main to Rosina Plant ($277,000). Basically, GSWC has failed to carry its burden of proof that such considerable capital costs are reasonable and justified.

Labor Expenses Issues – Los Osos and Simi Valley

1. Operation, Maintenance, and Administrative and General (A&G) Labor

1.1 Background

For the Test Year 2008 in Los Osos, DRA recommends for Operation Labor that the Commission adopt $155,100, instead of GSWC requested $232,700; for Maintenance Labor $40,000 instead of GSWC requested $57,200; for A&G $27,100 instead of GSWC requested $41,400.[135]

For the Test Year 2008 in Simi Valley, DRA recommends for Operation Labor approving $281,800, instead of GSWC requested $324,000; for A&G $60,000, instead of

[132] GSW (ALL)-22, Exhibt 8.

[133] GSW (LO)-2, page 285.

[134] *See* DRA (LO)-1, 4-40 to 4-42 (DRA cost benefit analysis with adjustment for buying land and drilling for new well) and DRA (ALL) -16, DRA Cost Benefit Analytical Model.

[135] DRA (LO)-1, 3-5 ll. 7–15.

GSWC requested $73,500. The Parties are in agreement regarding the amount forecasted for Maintenance Labor in Test Year 2008.[136]

For three categories of Labor Expenses in both Los Osos and Simi Valley mentioned above, GSWC projected labor expenses by starting with actual and vacant positions in Los Osos and related annual salary expenses for 2006. To this base, GSWC added the expenses for labor recorded in 2006 including for vacant positions and arrived a restated labor expense for 2006. Next, GSWC applied the allocated percentage of labor expenses for 2006 to the restated labor expenses to determine a number and percentage for capitalized and expensed portion of labor expenses. The expense portion is used for its base labor expenses to project future labor expenses.[137]

For estimating Los Osos and Simi Valley labor expenses in 2007, GSWC escalates the 2006 base labor expenses by a wage escalation factor of 3.3%. Then, to estimate for 2008, GSWC takes the escalated 2007 labor expenses and increases it for a merit increase factor of 1.28%; a wage inflation factor of 2.20%; and an overtime factor of 6.29%. For Simi Valley, GSWC estimates for 2008 by applying to the 2007 escalated amount, the same percentage factors mentioned above with the exception of the overtime factor which is 0.82% for Simi Valley.[138]

In both Los Osos and Simi Valley, the same methodology is applied to the base labor expenses for 2007 to estimate Operation Labor expenses for 2008.[139] These percentages are not actual increases of an employee's salary but nevertheless are added for purposes of forecasting the Operation Labor expense in Test Year 2008.[140] By contrast, DRA first excludes vacant positions pursuant to the holding in D.05-07-044.[141] Second, DRA uses

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[136] DRA (SM)-1, 3-4 ll. 8–15.

[137] *Id.* at ll. 16-23.

[138] DRA (SM)-1.

[139] *Id.* at 3-6 ll. 4–11.

[140] *See* GSWC (ALL) -3, 2:19–28 and 3:1–5, E. DeLeon Prep. Test./GSWC.

[141] *See* D.05-07-044 at 10 (mimeo).

only the actual recorded labor expenses for 2006 as the base to project the labor expense for the rate cycle years in this proceeding.

Third, DRA escalates the actual recorded labor expenses for 2006 to Test Year 2008 dollars by using the labor escalation factor of 3.2% for 2007 and 1.5% for Test Year 2008. DRA did not increase its estimates by any of the percentage factors, e.g., merit increase or overtime.[142]

Specifically with regard to the issue of Operation Labor expenses in Los Osos, only one employment position, Water Supply Operator II, remains in dispute. Further, GSWC opposes DRA's recommendations for Operation Labor ($155,100), Maintenance Labor ($40,000) and A&G Labor ($27,100). In Simi Valley, only 1 employment position, Water Supply Operator II is at issue, in addition to the DRA's recommended amounts in 2008 for Operation Labor ($281,800) and A&G Labor ($60,000).

1.2 DRA Recommendations and Findings

1.2.1 GSWC's methodology results in unreasonable and unjustified rate burdens.

For both Los Osos and Simi Valley, GSWC's methodology for estimating Operation, Maintenance, and A&G Labor expenses imposes on ratepayers unreasonable and unjustified rate burdens. First, GSWC adds labor expenses for "phantom" employees to its estimates for Test Year 2008. GSWC includes vacant positions although D.05-07-044 prohibits it. DRA excluded vacant positions from its forecasting. As Eric Matsuoka testified, GSWC is included:

> Position is requested for 2007.Expenses start in 2006.
> Phantom employee means this employee is supposedly hired in 2007, but it is not in2006. That's what I mean -- that is what I meant by phantom employee.

[142] Ex. DRA (LO)-1, 3-5 ll. 24–29 and 3-6 ll. 12–19.

Therefore, DRA recommends that Commission disallow GSWC's requests for the Labor Expenses described above. It is unreasonable and unjustified to have ratepayers pay for salary expenses of vacant positions, especially since D.05-07-044 prohibits such practice.

Exhibit DRA(ALL)-4, a spreadsheet printed from GSWC work paper, show how the percentage factors described above (e.g., merit increase, overtime) add layers of artificial expenses that are not shown to actually benefit the ratepayers. For example, an expense amount for the overtime factor of 6.29% is added to base labor expenses, even though no individual employee or group of employees in 2007 are specifically proven to have earned any overtime. On the other hand, if any individual or group of employees in fact earned overtime or in 2006, those actual salary expenses would be included in the 2006 base labor expenses which in turn would be artificially increased by applying the overtime factor of 6.29% to escalate from 2007 to 2008 labor expenses.

While GSWC may claim that overtime factor as with the merit award factor reward diligence and excellence, in principle GSWC has a point. However, unless proven that a particular individual has actually earned overtime or has actually earned a merit award, it is unreasonable for having ratepayers pay higher rates for some abstract principle, when it is unproven that overtime or a merit award was actually paid to an employee(s) and benefits are shown to flow from the labor expense increase. For these reasons, DRA's methodology of using only the 2006 actual and recorded labor expenses as the base for estimating 2008 expenses is more reasonable and justified.

Second, GSWC's methodology includes labor expenses that occur in a prior rate cycle. GSWC starts with 2006 actual and recorded expenses and adds to that the percentage factors described above to arrive at 2007 estimated labor expenses. To the 2007 estimated labor expense amount, GSWC adds another round of the percentage factors to arrive at the 2008 estimated labor expenses.

By contrast, DRA's methodology is simpler and more reasonable. DRA starts with only actual 2006 labor expenses, uses the labor escalation factor of 3.2% to escalate to 2007, and then uses another escalation factor of 1.5% to estimate for 2008 Test Year labor

expenses. In other words, only those labor expenses actually paid in 2006 are used as the base for forecasting. GSWC claims that DRA implicitly accepts GSWC's use of the percentage factors because the actual 2006 labor expenses may include dollars paid for overtime or merit award. This is specious and proves nothing more than that DRA accepts as part of labor expense only those dollars actually paid for overtime or merit award. DRA objects to imposing on ratepayers artificial and unjustified expenses caused by GSWC's methodology. Therefore, DRA recommends that the Commission adopt its recommendations instead GSWC's request, regarding Operation, Maintenance, and A&G Labor expenses for Los Osos and Simi Valley in Test Year 2008.

1.2.2 The Water Supply Operator II positions in Los Osos and Simi Valley are unjustified.

According to DRA, GSWC's requests for the two Water Supply Operator II positions in Los Osos and Simi Valley, are unreasonable and unjustified because these positions were requested in 2007 and the Commission has approved funding in the rate cycle previous to this proceeding — 2005, 2006, and 2007 — for those positions. In the words of DRA witness E. Matsuoka:

> I believe on Monday someone testified about there was a prior GRC that covered Test Years 2005, 2006 and 2007. And within that years for that rate cycle, the Commission adopted level of expense dollars for operation labor, maintenance labor, administrative and general labor. There were -- the Commission -- so, in other words, what I'm saying is the Commission adopted a level of expenses, dollars, for the year 2007. And the position -- from all indication of information that was furnished in this application, indicates that this position was to be hired in 2007, and . . . outside this rate cycle, which is Test Year 2008, Escalation Years 2009 and -10, 2010.

In D.05-05-025, Appendix A, the Commission does adopt a level of expense dollars for the Labor Expenses at issue in this proceeding. GSWC has not explained why those prior Commission-approved expense dollars in D.05-05-025 are inapplicable to its proposal to hire in 2007 the two Water Supply Operator II positions. While GSWC

presented testimony describing the proceeding involved with D.05-05-025, this fails to show the funding levels approved in D.05-05-025 are unavailable for the two Water Supply Operator II positions proposed for hiring in 2007.[143] It is unreasonable and unjustified to have the ratepayers pay twice for each of the two Water Supply Operator II positions at issue — once in the rate cycle preceding this proceeding and again in the present rate cycle. DRA recommends that the Commission deny GSWC's request for rate recovery of any expenses pertaining to the Water Supply Operator II in Los Osos and in Simi Valley.

Simi Valley Plant Issues

1. Rebecca Plant Improvements

1.1 Background

GSWC is requesting for Test Year 2007 rate recovery and earnings on $186,000, for the following stated purpose:

> Replace existing motor control center with new MCC to eliminate electrical safety and code violations, designed and constructed to accommodate future matched boosters. Reconnect existing pump motors. Stub out future conduits beyond slab for new pump motors.[144]

The "need" for the Rebecca Plant Improvements is stated as follows:

> The Rebecca Plant motor control center needs to be replaced because of the age (1960), and to meet current safety and code requirements. Safety issues, code violations and condition/reliability issues were identified in the Boyle Report "Inspection and Evaluation of Electrical Facilities", Simi Valley System, January, 1995. The recommended upgrades have been included in previous capital budgets, however, the project was deferred until the system master plan was initiated in 2006.

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[143] *See* Hr'g Tr. vol. 8, 375:5–13, June 25, 2007, R. Tanner/GSWC.

[144] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 58 (Jan. 2007)

According to GSWC Data Response 2 to AMX-43, the Boyle Report was written in 1995 and only indicates two "Code violations" as follows:

1 Grounding electrode conductor is undersized per NEC; and
2. Mercoid wire using a flexible cord, Mercoid should be fixed wired per NEC.

The Boyle Report stated the "minimum solution" to fix these violations would cost a total of $600. Also noted in the Boyle Report were a total of three "safety" and "condition/reliability" deficiencies (e.g., "no green wire ground" and "no phase failure protection," the "minimum solution" for these problems would cost in total $4,100. The total cost for the deficiencies, including design and utility service upgrades and fees was estimated as $38,000.[145]

According to data responses, in 2003 GSWC created a General Work Order (GWO) regarding the Rebecca Plant Upgrades. The GWO was never approved but "may have been carried for a while in CWIP as an estimate and as project under design."[146] The project was deferred until a "System Master Plan was initiated in year 2006."[147]

1.2 DRA Recommendations and Findings

DRA recommends Commission approval only in the amount of $108,000 for replacement of the MCC and the booster pumps at Rebecca Plant.[148] DRA further advises that the Commission should include in the Order Instituting Investigation examining and reversing the rate impact of GSWC including $38,000 in CWIP because it

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[145] Boyle Rept, sheets 1 through 3, provided with Ex. DRA(ALL)-15,GSWC Data Resp. to AMX-43, at Resp. 2, dated Ap. 3, 2007.

[146] Ex. DRA(ALL)-15, GSWC Resp. 3.

[147] *Supra* GSWC Simi Valley Workp'prs at sheet 58.

[148] This estimate is based on the Company's cost estimations of $38,000 for MCC in the year 2003 that is adjusted for the inflation and with 50% increase in the scope of the work regarding new booster pumps, and adding the booster pumps cost of $53,000. *See* Ex. DRA (SM)-1, 4-6 ll. 15–20 and n11.

is unreasonable and unjustified to impose rate burdens for a project that never materialized.

DRA found an absence of any data support for GSWC's request of rate recovery for the project costs of $186,000. When on March 12, 2007, DRA requested in AMX-43 "a copy of each and every General Work Order that pertains to this project," GSWC did not provide a copy of the 2003 GWO which was referenced in its response.[149]

In the same AMX-43, DRA asked for:

> the details for the cost estimation of $186,000, including the quantitative data supporting each and every cost item, such as employee time cards, bids, and invoices for GSWC's and its outside consultant's estimates, respectively.

GSWC responded with "documents entitled 'Rebecca Plant Electrical Panel Replacement' and 'Tesco Quote for MCC.'[Tesco Quote]."[150] This response provided no data supporting the amounts shown in the GSWC Simi Valley Workpaper sheet 63, for "construction cost ($105,000)," design ($20,000)," or "construction ($10,000)." And in fact, the cost total was depicted as $184,000 whereas the GSWC's workpapers indicate a total of $186,000.[151]

For example, GSWC Rebuttal cites only the Tesco Quote in support of its stated project costs of $186,000, as follows:

> Did GSWC provide DRA with supporting documentation for the estimate presented for replacing the electrical equipment with a MCC?"
>
> Yes, GSWC provided an estimate prepared by Tesco Controls, Inc. 27, which supports GSWC equipment estimate of $108,000. Note this cost does not include site construction to accommodate the MCC nor does it include installation.[152]

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[149] *See id.* at GSWC Resp. 3 (no GWO copy attached).

[150] *Id.* at GSWC Resp. 1 (no supporting data provided).

[151] GSW (SV)-2, Page-58

[152] Ex. Ex. 22, 115:20–25, E.Gisler Rebuttal/GSWC.

However, the Tesco Quote estimates the project cost as only $40,805 in total. GSWC does not explain how Tesco's $40,805 estimate supports its own and inconsistent estimate of $108,000, and further is silent as to how the Tesco Quote supports any of its other project cost estimates in its Workpaper Sheet 63, such as a construction cost of $105,000.[153] Evidently, GSWC has no data support for this $186,000 project. It should also be noticed that the GSWC's estimates for $186,000 as listed in its workpapers were prepared on or before October 10, 2006 whereas the Tesco Controls Inc. estimates are dated April 3, 2007. This shows that GSWC worked backward after the fact to justify its cost estimates of $186,000 when they were challenged by DRA, and therefore lack creditability.

Equally unreasonable and unjustified is project's cost increase of 276%, from the Boyle Report's estimate of $38,000 in 1995 the present GSWC estimate of $142,800 (excluding overheads and contingency). GSWC in its rebuttal testimony[154], Gisler discussed for the first time that the $38,000 cost estimates in 1995 were for "pole-mounted" electrical equipment. He argued that the current estimates are for "pad-mounted" electrical equipment. However, the Company failed to justify that why the replacement of old "pole-mounted" equipment with the similar in kind pole-mounted equipment is no longer suitable, especially when it is 276% cheaper.

Further, since 1965, GSWC has been operating low efficient pumps in violation of Commission guidelines. While performing a cost benefit analysis for this project cost of $186,000, the Company used a cost of $239,000 for the purpose of replacing MCC and booster pumps as "Scenario 1" alternative as compared with "Scenario-2: Do Nothing." When DRA requested data support for the $239,000 amount, GSWC responded that "Scenario 1 on [Workpaper sheet] page 59 was labeled incorrectly."[155] It is detrimental

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[153] *Cf* the Tesco Quote ref in Ex. 15, GSWC Data Resp. to AMX-43, Resp. 1 with GSWC Simi Valley Workp'prs sheet 63, *reproduced in* DRA (SM)-1, 4-4.

[154] GSW(All)-22, Page-114, lines: 6-19

[155] Ex. DRA (ALL) – 15, GSWC Data Resp. to AMX-43, Resp. 5.

to the ratepayers and militates further against approving this project for GSWC to fail to remediate low efficiency conditions for over the past fifteen years. Therefore, DRA appropriated $53,000 of recommend $108,000 for the purpose of replacing old inefficient booster pumps at Rebecca Plant site.[156]

As for the rest of DRA's findings not discussed above, it is evident from the record that GSWC has no rebuttal and has failed to carry its burden of proof.[157] While GSWC claims that its project estimate is consistent with other projects, the issue remains that GSWC has failed in the course of this proceeding to provide the quantitative justification and explanation for a nearly $200,000 rate recovery. The ratepayers legally deserve much more proof than GSWC has offered. Therefore the Commission should adopt DRA's recommendation for his project.

2. Miscellaneous Bowl Replacement

2.1 Background

GSWC is requesting rate recovery of $27,000, $28,000, and $35,000, respectively, for rate cycle years 2007, 2008, and 2009, for emergency replacement of pumps and motors as well as column extensions required due to declining pumping levels.[158]

2.2 DRA Recommendations and Findings

DRA incorporates by reference as if stated here its analyses of this issue as stated above for the Miscellaneous Bowl Replacement issues in the Santa Maria CSA. As in the case of the Santa Maria CSA, GSWC has not provided data to support its proposal. Further, GSWC has not discussed any of DRA's findings in rebuttal.[159]

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[156] DRA (SV)-1, Page4-6, lines: 15-22

[157] *Cf* DRA (SM)-1, 4-2 to 4-6 (DRA findings) with Ex. 22, 113 to 116, E.Gisler Rebuttal/GSWC (no supporting data provided)

[158] *See* DRA (SV)-1, 4-7 to 4-8, DRA Simi Vall. Rept. on Ops. (DRA analyses of the misc. bowl issues).

[159] *See* Ex. 22, pp. (iii) (Table of Contents) and 113 to 135 (Simi Valley discussion), E.Gisler Rebuttal/GSWC (no bowl replacement issue mentioned).

Therefore, for the reasons and facts set forth in DRA's Simi Valley Report at pp. 4-7 to 4-8, as well as those stated with regard to the same issue the Santa Maria CSA, the Commission should adopt DRA's recommendation of $5,000 and deny GSWC's request of $27,000.

3. Runkle Canyon Storage Tank- GSWC Funded Capacity Increase

3.1 Background

GSWC is requesting $213,000 in Test Year 2007 for the purpose of increasing the storage capacity of a reservoir tank that will be constructed by a developer for a new subdivision in the area. Because the proposed reservoir tank will be located at the highest elevation in the Simi Valley System and float on the Runkle Canyon Zone, it is an ideal location for additional storage to provide for periods of peak hour, fire flow, and emergency demand in lower zones.[160]

3.2 DRA Recommendations and Findings

Basically, DRA was provided no supporting data proving GSWC's various claims, such as the shortage of water storage during the peak hours, fire flow and emergency demand deficiencies in the Simi System. GSWC did not provide any such support in its data responses to AMX-45. Further, the GSWC Rebuttal only states:

> GSWC's estimate takes into account the need for redundant storage for peak hour, fire flow and emergency demand in the lower pressure zones of the Simi Valley System.[161]

However, no data is offered to quantitatively prove GSWC's claims of water shortages during peak hours, fire flow, and emergency demand deficiencies.[162] Therefore DRA recommends disallowing this rate recovery request of $213,000. GSWC has not carried its burden of proof.

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[160] GSWC GSWC Simi Valley Workp'prs vol. 2, sheet 76.

[161] Ex. 22,119:20–22, E.Gisler Rebuttal/GSWC.

[162] *See id.* at 119:20–27 to 120:1–7(no supporting data stated or attached).

Further, GSWC claims that the customers at the highest elevations in the Pineview Booster Zone have experienced low water pressure. However, according to data responses, out of a total of fifteen complaint records provided; ten of these complaint records belonged to a customer, named Terry Talley. GSWC's Rebuttal fails to disprove this fact.[163]

On April 24, 2007, DRA contacted Mr. Talley by telephone. According to Mr. Talley, his house is located almost at the end of the zone and added that there is only one house that is located on a higher elevation than his house. Mr. Talley also stated that he experienced a low pressure condition in the beginning when he first moved into his present house in the year 1998; since then the low pressure has improved reasonably well. Mr. Talley's customer complaint data also reflect the same fact as the number of complaint calls from him dropped significantly over the years. For example, there were 11 entries in the year 1999 and only one in year 2007. These facts are consistent with GSWC's Rebuttal, as follows:

> Per the records provided by GSWC . . . this customer had 3 complaints in 1998, 1 in 1999, 1 in 2000, 1 in 2004 and 3 in 2006.[164]

Therefore, GSWC has not rebutted DRA's finding that the low water pressure improved and Mr. Talley was the only complaining customer. This corroborates that GSWC has failed to carry its burden of proving a need for this project.

The Commission should consider the following history which further supports denying this GSWC request. In 2000, the Pineview Pressure Zone was constructed to replace the Appleton Zone.[165] In February 2000, the Pineview reservoir of 2,000,000 gallons and three booster pumps became operational, which resulted from local area development and developer contributions.

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[163] *Cf* DRA (SM)-1, 4-10 ll. 12–15 *with* Ex. 22, 120:16–21, E.Gisler Rebuttal/GSWC

[164] *Cf* DRA (SM)-1, 4-10 ll. 12–23 *with* Ex. 22, 120:17–19, E.Gisler Rebuttal/GSWC

[165] Ex. 17 GSWC Data Resp. to AMX-45, Resp. 4.

When GSWC engineered the Pineview Pressure Zone, the elevation of the serving area in the Pineview Pressure Zone and the pertinent peak demand calculations should have been taken into account, when GSWC constructed Pineview reservoir of 2,000,000 gallons with 2000 GPM booster station. Therefore, any low pressure that may exist in the Pineview Pressure Zone should not be imposed on the Simi Valley ratepayers, because the Pineview Pressure Zone was designed or should have been constructed to address those problems. This Runkle project requests would unjustifiably place the burden of compensating for GSWC's omission in design or construction of the Pineview Pressure Zone on the Simi Valley ratepayers.[166]

GSWC has not proven that the existing 8.21 million gallon storage capacity when considered in combination with two groundwater wells and the existing five connections with local water purveyor, Calleguas Municipal Water District, are insufficient to meet its fire flow and emergency demands. As GSWC's Rebuttal shows, no data supports GSWC's claim that this storage capacity and the other resources mentioned above are insufficient.[167]

The GSWC Rebuttal also does not refute DRA's finding that according to GSWC's own workpapers, the developer is to pay $1,423,000 of the estimated project costs of $1,450,000.[168] When in AMX-45 DRA asked GSWC to explain these two amounts, GSWC responded that the spreadsheet referenced on page 85 was originally created from another document. The correct cost should have been listed as $0.89 per gallon for the developer's portion. The additional company contribution, for the cost of increasing the size from 1.4MG to 2.0MG, was based on a prorated estimate from the e-mail document referenced in question 2, above.

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[166] *See* DRA (SM)-1, 4-11 ll. 1–15 (background of the Pineview reservoir).

[167] *See* Ex. 22, 119 to 124, E.Gisler Rebuttal/GSWC (no proof of insufficient storage capacity).

[168] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 85 (amounts shown under column "Projected costs" and "Percentage Developer Resp.").

However, no data or other records accompanied the data response to explain why "the correct cost should have been listed as $0.89." At $0.89 per gallon, developer's responsibility for the project would be as $1,265,748 instead of $1,423,000 as shown on Sheet 85.[169] As DRA shows, even if the developer were to pay $1,250,000[170], GSWC is still exaggerating its own share of the costs which would be far less than the $213,000 requested.[171] GSWC's Rebuttal fails to refute DRA's analyses.[172]

Therefore, these inconsistent amounts of the developer's contribution to the project undermine the credibility of GSWC's rate recovery request for $213,000 and further warrant disallowing this project.

GSWC's claimed project cost is $213,000 to increase total storage capacity to a total of 2.0 million gallons, also dubious.[173] First, Sheet 82 states that according to GSWC Engineering and Planning Department GSWC is budgeting for a 1,250,000 gallon tank.[174] However, GSWC disclaims Sheet 82 as follows:

> The information on page 82 was included as general reference for the costs associated with tanks in the range mentioned: 1.2MG to 2.0MG. The 1.2MG figure, and the e-mail document itself, were not specific to the Runkle Canyon tank; they originated in reference to a proposal for upsizing a similar tank in Orcutt.

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[169] *Cf* GSWC Data Resp. to AMX-45, Resp. 3 (oops!), with DRA (SM)-1, 4-12 ll. 23–24 and 4-13 ll. 1–6 (no support for alleged error provided).

[170] GSWC claims that developer is paying $1,250,000 of the total cost of $1,450,000. *See* GSWC Simi Valley Workpapers, vol. 2, tab "Ratebase," sheet 85.

[171] DRA (SM)-1, 4-14 ll. 34–38 and 4-15 ll. 1–12 (exaggerated project costs).

[172] *See* Ex. 22, 119 to 124, E.Gisler Rebuttal/GSWC (no data supporting correction to $0.89 per gallon).

[173] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 76.

[174] *Id.* at sheet 82.

Moreover, even the storage capacity of 1,422,229 gallons stated by Sheet 85 as the project storage capacity, is inconsistent with Sheet 76's stated project storage capacity of 2.0 million gallons.[175]

All these contradictions beg the question: on what total storage capacity is the project cost of $213,000 based and at what unit cost? Not even GSWC's Rebuttal presents any data resolving this confusion. While acknowledging the discrepancies found by DRA, GSWC claims the project cost is even more uncertain than everyone thinks:

> GSWC acknowledged the original estimating discrepancies alluded to by DRA, and provided corrected information. Any further discrepancies that DRA is continuing to discuss are due to the fact that the costs associated with the reservoir at this point in time are only an estimate, and not actual bid results or construction costs. Cost data for both the developer and GSWC will ultimately be based on a "per gallon" charge calculated from the bid results. GSWC's requested amount is intended to accurately reflect the trend of cost data throughout Region I, and account for the impact on the bid of external market factors, such as season, material costs, availability of contractors, etc.[176]

It is unreasonable and unlawful to impose rate burdens amounting to $213,000 based on such lack of data, inconsistencies, and multiple disclaimers of accuracy and credibility. The Commission should deny this project with prejudice. GSWC acting grossly negligent to the detriment of the ratepayers.

4. Hydrants

4.1 Background

GSWC is requesting amounts of $27,000, $22,000, and $29,000, respectively, in the rate cycle 2007, 2008, and 2009, for the purpose of replacing obsolete fire hydrants located within the older sections of the distribution system with new hydrants.

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[175] *Id.* at sheets 76 & 85.

[176] Ex. 22, 122:20–27, E.Gisler Rebuttal/GSWC

4.2 DRA Recommendations and Findings

For the reasons stated, DRA recommends allowing $3,000 for each of the rate cycle years, 2007, 2008, and 2009.[177]

GSWC has not provided data supporting its claim that existing hydrants are obsolete or the number and location of such hydrants. Based on GSWC last ten years of expenditures provided in data responses,[178] DRA found that GSWC has spent little if any monies on this project from year to year and six years ago in 2001, only spent $22,521. GSWC has not come forward with any specific explanation supported by data to show any exigency behind these project requests or otherwise to justify the comparatively higher requested expenditures in light of its ten year history.[179] Therefore, the Commission should adopt DRA's recommendation in lieu of GSWC's project requests for the rate cycle years in question.

5. Service Line Replacement (2007, 2008, 2009)

5.1 Background

GSWC is requesting rate recovery for $133,000, $101,400, and $117,000, respectively for the rate cycle years 2007, 2008 and 2009 for replacing old plastic service lines in a particular area of the Simi Valley System. According to GSWC, the area has 30-year old plastic service lines that have exceeded their useful life.

5.2 DRA Recommendations and Findings

DRA recommends disallowing GSWC recovery requests of $133,000, $101,400, and $117,000 as stated above.[180]

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[177] DRA (SV)-1, 4-17 ll. 7-10 (methodology explained).

[178] Ex. 17, GSWC Data Resp. to AMX-41, dated Mar. 23, 2007.

[179] *See* Ex. 22, 113 to 135, E.Gisler Rebuttal/GSWC (no discussion of hydrants in the Simi Valley segments).

[180] DRA (SV)-1, 4-17 to 4-19 ($133,000), 4-42 ($101,400), and 4-52 ($117,000), DRA Simi Vall. Rept. on Ops.

The only data given in support of GSWC requests were presented in Workpapers and data responses. The GSWC Rebuttal did not address this issue. Based on the information stated above, DRA found unsupported GSWC's claimed service repair cost of $10,000 per year as used in a cost benefit analysis.[181] In addition, there exist discrepancies in GSWC's estimates for the cost of repairs used in its cost benefits analysis. For example, GSWC claimed that it had repaired 30 leaks over a nine year period.[182] Taking into account a total annual cost of $10,000 for repairs, this amount equates to $2,994 per leak repair. While a "Bid Tabulation Sheet" provided in a data response indicates that a lower bid for replacing a 3/4-inch plastic service line with a copper service line will cost only $2,300 per service line instead.[183]

Based on this and other limited data from GSWC, DRA concluded that the GSWC's cost benefit analysis not only exaggerated the repair cost but with this erroneous cost data still depicts that the repairing service lines is more cost effective option for the ratepayers. Therefore, GSWC does not support its recovery requests. Further, the GSWC "Blanket" capital budget is available to fund replacing service lines that are irreparable. Therefore, DRA does not find that the GSWC has justified placing on the ratepayers the burden of paying for such a costly "service replacement" project.

6. Master Plan

6.1 Background

As with the Master Plan expenses for the Santa Maria CSA, GSWC is requesting for Test Year 2007 rate recovery in the amount of $133,000 for the preparation of the Master Plan for Simi Valley CSA by CH2M HILL.

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[181] DRA (SV)-1, 4-18 ll. 4–12, *citing* GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheets 87–92 and 238–243.

[182] GSWC Simi Valley Workpapers, vol. 2, tab "Ratebase," sheet 87.

[183] *Id.* at ll. 12–16, *citing* GSWC Data Resp. to AMX-46, dated Mar. 26, 2007.

6.2 DRA Recommendations and Findings

For reasons and facts stated above regarding the issue of the GSWC Master Plan expenses for Santa Maria CSA, which are incorporated by reference as fully stated here, as well as DRA's analyses in its Simi Valley Report,[184] DRA recommends disallowing the $133,000 requested for the preparation by CH2M HILL of the Simi Valley Master Plan.

7. Contingency

7.1 Background

As with the Santa Maria CSA, GSWC is requesting rate recovery of a contingency budget amount based on 10% of its capital budget, which would be available for both stand-alone capital projects and Blanket Projects.

7.2 DRA Recommendations and Findings

For reasons and facts stated above regarding the issue of the Contingency for the Santa Maria CSA, which are incorporated by reference as fully stated here, as well as DRA's analyses in its Simi Valley Report,[185] DRA recommends adopting DRA's 5% contingency rate and disallowing the GSWC 10% contingency rate.

8. Crater Tanks- Remove from Service

8.1 Background

GSWC is requesting rate recovery of $294,000 in Test Year 2008 for destroying and removing two steel tanks that have deteriorated beyond their useful life and repair. CH2M HILL prepared the cost estimates.[186]

8.2 DRA Recommendations and Findings

DRA recommends that the Commission approve rate recovery for only $54,000, instead of GSWC's unsupported request of $294,000. During the course of this

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[184] DRA (SM)-1, 4-25 to 4-28.

[185] DRA (SM)-1, 4-55 to 4-58.

[186] *See* GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 134 (estimates by CH2M HILL Estimating Servs.).

proceeding GSWC has offered no data to prove the CH2M HILL estimates are reasonable or justified. Further, GSWC fails to justify disregarding using its own engineering staff and hiring a local contractor for the project, an apparently more cost effective alternative.

The record is riddled with curious lacunae of proof for GSWC's claims. When reviewing the data responses and GSWC Workpapers presented for this project, DRA found a CH2M HILL Estimating Services report which presented a larger and more expensive project than described by the GSWC prepared testimony, e.g, site regarding, restoration, drainage, etc.[187] Further, no data was included in any data response or Workpaper to prove the CH2M HILL methodology and its estimates were reasonable or justified.[188] And, GSWC presented no consideration of any more cost effective alternative such as using in-house engineers and a local contractor for the job.[189] Therefore, for the reasons and facts given in the DRA Simi Valley Report, DRA recommended disallowing the $294,000 rate recovery request.[190]

The GSWC Rebuttal presented no more showing of reasonableness and justification than it had prior to the hearing. For example, but only offered conclusory statements, as follows:

> (Q) Does GSWC stand behind the budget estimate submitted for this project?
>
> (A) Yes, GSWC concludes the cost estimating methodology and budget amount requested are just and reasonable and reflect the site constraints associated with this project. In fact, GSWC further finds the real budgetary estimate provided by Jim Thorpe Oil, Inc. supports GSWC requested budget

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[187] *Cf id.* with GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 134. (CH2M HILL Estimating Servs. Rept.).

[188] *See id.* at sheet 134 (no supporting data included).

[189] DRA (SM)-1, 4-33 ll. 5–9 & n47 and 14–17 & n48 (no data support and inconsistent scope of work), *ref respectively* GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheets 132–134 and GSWC Data Resp. to AMX-49, dated Ap. 5, 2007.

[190] DRA (SM)-1, 4-32 ll. 10–12 to 4-34 ll. 1–14 (DRA analyses).

> amount. Therefore, GSWC recommends the project funding of $294,000 be authorized.[191]

First, consistently GSWC fails to support its rebuttal with quantitative data, work papers, or any other type of proof that would justify CH2M HILL's estimating methodology and budget amounts. If the ratepayers are to bear GSWC's proposed onerous rate burdens, the law requires more than GSWC's opinions, speculation, or mere conclusions.

Second, it is incredulous that GSWC is citing the Jim Thorpe Oil statement as data supporting the CH2M HILL estimating methodology and budget amounts. The CH2M HILL Estimating Services report at Workpaper Sheet 134 is dated "10/20/2006" and the Jim Thorpe Oil "Record of Phone Conversation" is dated "May 30, 2007."[192] Therefore, Jim Thorpe is irrelevant and immaterial to the ratemaking issue in this proceeding. Yet, it is just this type of evidence that GSWC is advancing in this proceeding that warrants rejecting its $294,000 rate recovery request.

Third, GSWC substitutes *ad hominem* attacks on the integrity of DRA for relevant and material proof. When speaking with Jim Thorpe, DRA gave him a description of the project scope that is consistent with GSWC prepared testimony, as follows: "[d]estroy and remove two steel tanks that have deteriorated beyond their useful life and economical repair."[193] It is also consistent with the ""Project Description" in GSWC Workpapers, which is as follows: "Crater Steel Tanks, Remove & Dispose."[194] Moreover, the cost estimate prepared by CH2MHill for the "demolition & removal" of the two tanks by a third party contractor is itself only $72,113.40[195].

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[191] Ex. 22, 128:14–20, E.Gisler Rebuttal/GSWC.

[192] *Cf* GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 134 *with* Ex. 22, 125:1-25, E.Gisler Rebuttal/GSWC (J. Thorpe rec. tel. convers.).

[193] *See* Ex. 22, 126:2–3 and n.29, E.Gisler Rebuttal/GSWC, *ref "*DRA response to GSWC data request JDL-1, May 25, 2007."

[194] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 132.

[195] GSWC Simi Valley Workpapers, vol. 2, tab "Ratebase," sheet 134.

However, when GSWC interviews Jim Thorpe, it describes a project of a larger scope which additionally involves "removal of site piping, removal of footing, grading the site, and providing erosion control." Based on such a self-serving interview, GSWC accuses DRA of misleading and coercing Jim Thorpe.[196]

GSWC accusations are groundless as well as irrelevant and immaterial to the real issue — whether GSWC has proven CH2M HILL estimating methodology and project estimates of nearly $300,000 are reasonable and justified. As DRA witness Mehboob Aslam described the issue of proof:

> Such justification should be consistent of a comparison cost of company's internal resources and their man hours, their salaries compared to the CH2M Hill man hours and salaries, and a showing with a quantitative analysis the company's current workload with help of workpapers, the currently General Order work orders to show the company is overburdened and also show a complexity of the project. That this project entails lots of complexity which is beyond the in-house resources. No such information was provided.[197]

It is apparent that GSWC's attacks on the integrity of DRA have nothing to do with GSWC's burden of proof or any other ratemaking issue in this matter.

Therefore, the record warrants rejecting the GSWC $294,000 rate recovery request for "Crater Steet Tanks, Remove & Dispose. Notwithstanding the Commission's adoption of DRA's recommendation of $54,000 as the more cost effective and reasonable alternative.

9. Distribution Improvements per Niles Study and the Niles Upgrades per Niles Study

9.1 Background

For the Distribution Improvements Per Niles Study project, GSWC is requesting rate recovery of $223,000 in Test Year 2008. This budget item is proposed to cover a portion of the distribution improvements identified in the Niles Plant evaluation and

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[196] Ex. 22,126:3–7, E.Gisler Rebuttal/GSWC ("intentionally misled or coerced").

[197] Hr'g Tr. vol. 12, 956:14–23, July 12, 2006, M. Aslam/DRA.

system optimization study currently being performed by CH2MHill. More specifically, according to the GSWC Rebuttal,

> The distribution mains delivering water to the customers are undersized and need to be upgraded to handle both current and future flows.[198]

For the Niles Upgrades per Niles Study project, GSWC is requesting rate recovery of $335,000 in Test Year 2008. This budget item is to cover a portion of the Niles upgrade improvements identified in the Niles Plant evaluation and system optimization study currently being performed by CH2MHill. More specifically, this project is to modify existing well pumps, booster pumps, control systems and plant piping at Niles Plant.

In 1997–1998, GSWC constructed the existing Niles Plant, drilled the Niles Well #1, and improved the existing booster station for a total construction cost of $2,068,585.[199]

In 1998, GSWC decided that TDS level for system water was "not to exceed" 700 mg/L, based on customer complaints. Subsequently, according to GSWC,

> continued customer complaints (regarding water clarity, taste and hardness) required the lowering of the "not to exceed" TDS level to 500 mg/L shortly after the plant improvements were placed into service.

The two project requests mentioned above are principally to achieve a TDA level of 500 mg/L in the system water, and with a number of other projects comprise the "Niles Study," which in total is projected amount to $4,363,000.[200].

9.2 DRA Recommendations and Findings

For the reasons and facts stated in its Simi Valley Report, DRA recommends disallowing both rate recovery requests of $223,000 and $335,000. DRA finds that

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[198] Ex. 22,130:3–5, E.Gisler Rebuttal/GSWC.

[199] GSWC Data Resp. to AMX-50, Resp. 2, dated Ap. 5, 2007.

[200] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 151 (Scenario 3).

GSWC has not proved the need to spend more than half a million dollars to achieve a TDS level of 500 mg/L based on an extremely small sampling of 15 customer complaints. Second, GSWC has not shown that a more cost effective option is unavailable, i.e., using Variable Drive Frequency pumps to more efficiently and economically blend water to lower TDS levels. Third, the record shows that these two GSWC proposals are premature because GSWC had applied to participate in the local "Brineline Study" which when completed could render the present request for more than $500,000 unnecessary.

Although GSWC in data responses generally described customer complaints as motivating its Niles Plant improvements to achieve a TDS level of 700 mg/L in 1998, in year 2006 the number of such complaints were reduced to only 15. In GSWC's Rebuttal, it stated that the reason why the customer complaints dropped to 15 was because of the reduction of TDS concentration to 500 mg/L. Therefore, it is quite clear that the Company's existing resources and operations are able to maintain the level of TDS at 500mg/L.[201]

On the other hand, DRA has stated, only 15 customer complaints — or even 74 in 1997 — is an extremely small sampling and does not justify spending over $500,000 at the present on two projects, and later over $4 million on other Niles Study projects. GSWC acknowledges the small number of complaints but does not explain how this data justify such a high expenditures.

Moreover, GSWC has not shown that the pertinent DHS regulations require it to spend over $500,000 to achieve a TDS level of 500 mg/L. As DHS Table 64449-B reproduced at page 4-37 of the DRA Simi Valley Report, shows at section (f), subsection (2) thereof:

[201] *See* Ex. 22,131:18–23, E.Gisler Rebuttal/GSWC, *ref* attached "Exhibit 14."

> Constituent concentrations ranging to the Upper contaminant level are acceptable if it is neither reasonable nor feasible to provide more suitable water.

The "upper contaminant level" is defined for TDS by Table 64449-B as 1,000 mg/L.[202] In this case, 15 customer complaints do not prove it is neither reasonable nor feasible to provide system water ranging in TDS levels up to 1,000 mg/L. Therefore, GSWC has not shown a more cost effective alternative is unavailable.

Further, DRA found that a Brineline Study in which GSWC is participating may open new and cost effective alternatives to GSWC short of having to spend over $500,000 now and over $4 million more later. GSWC responded to this finding with only generalities and no specific details or support, as follows:

> The amount of water produced from the Niles Plant will not vary substantially from the quantities proposed in the Niles Study if GSWC participates in the regional brine line. Therefore, the proposed improvements are needed under either scenario. In addition, the possibility of GSWC participation in the regional brine line was taken into account during preparation of the Niles Study to ensure that the new facilities will not become obsolete.[203]

GSWC did not include any details of it means by the term "not vary substantially" and does not show where and how in the Niles study the regional brine line was taken into account. The same statement as well as the rest of GSWC's Rebuttal does not portray any exigent circumstances outweigh awaiting the outcome of the Brineline Study, according to which as DRA notes, a Brineline has already been constructed and has reached the outskirt of the City of Simi Valley.[204] that would compel a rush to judgment. Therefore, DRA asks, why the rush to judgment when potentially a significant portion of the more than $500,000 rate recovery requests could be saved, and possibly even shaving

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[202] *See* "Exhibit 15" attached to and ref in Ex. 22,131:25–26, E.Gisler Rebuttal/GSWC (copy of pertinent DHS regulation).

[203] Ex. 22,131:5–10, E.Gisler Rebuttal/GSWC

[204] DRA (SV)-1, 4-41 ll. 13–24, DRA Simi Vall. Rept. on Ops.

some of the over $4 million projected Niles Study project costs? GSWC's proposals are premature and should be disallowed.

As for using the VFD pumps — which is part of what DRA meant by "making full use of its existing facilities — GSWC claims that it has been using these pumps at the Niles Plant since 1999.[205] However, the Niles Study Technical Memorandum dated October 2006 states that based on CH2M HILL's observation at the Niles Plant,

> [t]he mixing of well water and purchases water is done manually based on the tank level and manually set flow rates. . . .The mixing and balancing can be automated . . . through the VFDs with PLC logic."[206]

Further according to D.05-05-025, in A.04-08-042, GSWC requested and was granted for Test Year 2005, $100,000 to purchase VFD pumps for the Niles Plant. Therefore the record proves that GSWC has not utilized a more cost effective and available alternative, VFD pumps, contrary to its claim that it has been doing so since 1999. Consequently, GSWC has failed to justify proposed recovery requests of more than $500,000.

DRA is concerned that these two Niles Study projects comprise the proverbial nose of the camel. Once the camel get its nose into the tent, it will be more difficult to resist letting the entire camel under the tent. In other words, much more than two Niles Study projects are at stake here, and DRA urges the Commission to scrutinize these projects more exactingly in the context of entire $4 million and more of project costs that these requests portend.

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[205] Ex. 22, 132:19–21, E.Gisler Rebuttal/GSWC.

[206] GSWC Simi Valley Workp'prs vol. 2, tab "Ratebase," sheet 143, sec. 2.4, 5th bullet point therein.

10. Hydrants

For the reasons and facts stated in the DRA Simi Valley Report, DRA recommends that the Commission adopt $3,000 as rate recovery amount in Test Year 2008 for this issue, in lieu of the GSWC's requested $22,000.[207]

11. Contingency

For reasons stated above regarding the issue of the Contingency in the Santa Maria CSA, which are incorporated by reference as fully stated here, as well as DRA's analyses in its Simi Valley Report,[208] DRA recommends adopting DRA's contingency budget amount of $23,000 for Test Year 2008, instead of GSWC's requested amount of $42,000.

Ojai

1. Gorham Well – Replace Pump

1.1 Background

GSWC is seeking $69,000 in Test Year 2007 to replace an existing, water-lubricated pump at the Gorham Well with a submersible pump and motor. According to GSWC Prepared Testimony,

> Since oil introduction into [GSWC] wells is no longer allowed we have gone to water lubrication systems. . . Pumps with long water lubricated shafts often suffer from lack of lubrication at startup due to prelubrication water not making down hundreds of feet of shaft. Dry starting the shaft bearings causes excessive wear and renders the pumps to a life expectancy much shorter than is typically expected.[209]

In 2002, the present pump was installed at the Gorham Well. It is a deep-well, turbine pump with water-lubricated, shaft bushings and a 75-horse power above-ground motor. The pump has operated without incident since its installation.[210] In 2005, pump

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[207] *See* DRA (SV)-1, 4-42:1–8, DRA Simi Vall. Rept. on Ops.

[208] DRA (SM)-1, 4-55 to 4-58.

[209] GSWC (ALL) -8, 744:5–12, E. Gisler Prep. Test./GSWC.

[210] Ex. 22, 84:21–22, E.Gisler Rebuttal/GSWC.

tests showed that the overall Gorham Well pump efficiency was 57%. In February 2002 and again in March 2004, the water-lubricated, shaft-driven well pump at nearby Ojai Mutual no. 5 well pump, was replaced, and in 2006, a submersible pump was installed.[211]

1.2 DRA Recommendations and Findings

For the reasons stated in its Ojai Report, DRA recommends disallowing all of this request of $69,000.[212] GSWC apparently has known for some time that water-lubricated pumps are unsuitable for Ojai operations and a more cost effective alternative is available, the submersible pump. For example, GSWC provided new data in rebuttal that showed "pumping rate has steadily declined since the pump was installed in May of 2002."[213] However, GSWC continued to use water-lubricated pumps in the Ojai Valley, such as at the Ojai Mutual no.5 site where a water-lubricated pump was installed in February 2002 and replaced with the same type of pump in March 2004.

Further, the new data only proves that Gorham Well is operating inefficiently but fails to explain GSWC's reasons for continuing to use unsuitable water-lubricated pumps at a nearby site in 2002 and again in 2004. Therefore DRA concludes it would be unfair for ratepayers to bear the rate burden of having to pay for a submersible pump,[214] when GSWC is already earning a return on the two water-lubricated pump that were unsuitable for the operating conductions in Ojai.

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[211] GSWC Ojai Workp'prs vol. 2, tab "Ratebase," sheet 117 (Proj: Gorham Well-Pump Replacemnt).

[212] *See* DRA (OJ)-1, 4-2 to 4-3,DRA Ojai Rept. on Ops.

[213] Ex. 22, 86:2–3, E.Gisler Rebuttal/GSWC.

[214] Submersible pumps shown only 17% and not 70% comparatively less expensive than a water-lubricated water pump. *See* GSWC Ojai Workp'prs vol. 2, tab "Ratebase," sheets 123–125 (17% difference shown).

GSWC does not deny that it has a contingency budget for the Ojai CSA to address emergencies due to pump breakdowns, as DRA stated.[215] GSWC has not proven that this budget would be unavailable for purchasing a submersible pump in the event the Gorham Well pump breaks down. Therefore, it would be unreasonable and inappropriate to require ratepayers to pay for the proposed submersible pump and in addition pay for a contingency budget that indisputably is available to fund this project request.

2. Valves

2.1 Background

GSWC is seeking $32,000 $33,000 and $29,000, respectively, in 2007, 2008, and 2009 for replacement of old, inoperative valves within the distribution system. DRA recommends $11,000, $12,000, and $13,000, respectively, in 2007, 2008, and 2009.

2.2 DRA Recommendations and Findings

DRA analyzed ten years of data provided by GSWC data response that showed the history of valve replacements in the Ojai CSA. According to this data, GSWC spent $12,325, $3,084, and $16,326 in 2002, 2004, and 2005 respectively for valve replacements.

Based on this GSWC data, DRA concluded that the past trend of valve replacements in Ojai supported the aforementioned recommendations above for 2002-2005. While GSWC claimed that "the valves will be replaced as quickly as they can once identified," it failed to prove with the same historical data any specific urgency existed.

For example, GSWC's historical data on valve replacement in the Ojai area does not support the urgency of this project. Instead GSWC describes the "average material cost of a gate valve," "labor costs for a crew of 5," or "the importance of replacing these valves."[216] While interesting, this information does not refute the ten years of data that

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[215] *Cf* DRA (OJ)-1, 4-3 ll.16–18, DRA Ojai Rept. on Ops. *with* Ex. 22, 84 to 93, E.Gisler Rebuttal/GSWC (no discussion of Ojai contingency budget).

[216] *See* Ex. 22, 78–81, E.Gisler Rebuttal/GSWC (no discussion of the 10-year historical data).

prove GSWC's valve replacement program is anything other than a form of routine system maintenance. Having failed to meet its burden of proof demonstrating a genuine need for an accelerated replacement program, the Commission should adopt DRA's recommended levels of rate recovery for this project in lieu of GSWC's.

3. Master Plan

For the reasons stated in its Ojai Report and those presented in this Opening Brief with regard to this issue for the Santa Maria CSA, DRA recommends that the Commission deny this request for the CH2M HILL's costs for preparing the 2007 Ojai Master Plan.[217]

4. Contingency

For the reasons stated in its Ojai Report and those presented in this Opening Brief with regard to this issue for the Santa Maria CSA, DRA recommends that the Commission deny GSWC's request for the contingency budget.[218]

5. Services

5.1 Background

GSWC is seeking $240,000, $120,000, and $120,000, respectively, in 2007, 2008, and 2008 for installation of services for infill lots that possess a service entitlement and renewal of services found to be leaking. For all three years, GSWC has estimated the amounts based on "the average expended over the last six years (2000 – 2005).[219]

5.2 DRA Recommendations and Findings

DRA recommends that the Commission approves following: $126,100, $111,400, and $108,900, respectively, in the rate cycle years 2007, 2008, and 2009. DRA used historical data for the more recent six-year period of 2002 through 2006. GSWC used historical data from a six-year period later in time than DRA's, i.e., 2000 through 2005.

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[217] DRA (OJ)-1, 4-18 to 4-20,DRA Ojai Rept. on Ops. (DRA's position on the 2007 Ojai Master Plan issue).

[218] *Id.* at 4-30 to 40-32 (DRA's position on the Ojai contingency issue).

[219] GSWC (ALL) -8, 79:4–11, 83:24–28 and 84:1–3, 87: 88:1–7, E. Gisler Prep. Test./GSWC.

GSWC has given no justification or data in support of its reasons for choosing the period 2000 through 2005, for which it has the burden of proof.[220] Therefore, DRA believes its methodology is more reasonable and justified because DRA is basing its estimates on more current data than GSWC.

6. Minor Main Replacement

6.1 Background

GSWC is seeking $29,000, $60,000, and $53,300 in 2007, 2008, and 2009, respectively, for the purpose of replacing sections of waterline as a result of failure.[221]

6.2 DRA Recommendations and Findings

DRA recommends $18,000, $26,500, and $21,000 in the rate cycle years 2007, 2008, and 2009, respectively.[222]

In data responses to AMX-42, GSWC gave total amounts of minor main replacement expenditures in Ojai over a ten year period from 1997 through 2006. GSWC offered no analyses of this data to justify its requests mentioned above. By contrast, DRA's analysis offers a cogent rationale for its position including quantitative analyses supporting its recommendations regarding this matter.[223]

GSWC's Rebuttal added nothing to the discussion beyond its initial testimony and data responses. Therefore the Commission should adopt DRA's recommendations in lieu of GSWC, because GSWC has failed to justify its rate recovery requests.

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[220] *See id. (*no justification given for using older v. most current data) and Ex. 22, 84 to 93, E.Gisler Rebuttal/GSWC (no discussion of methodology in Ojai CSA sections).

[221] GSWC (ALL) -8, 95:13–25 (2007), 84:5–14 (2008), 88:9–18(2009), E. Gisler Prep. Test.

[222] DRA (OJ)-1, 4-21 to 4-22,DRA Ojai Rept. on Ops.

[223] *Id.* DRA's analyses of the Gorham Well-Replacement Pump issue stated above is incorporated by reference as if fully stated here.

7. San Antonio Well No. 4- Pump Replacement

7.1 Background

GSWC has requested $76,000 in 2009 for the purchase a submersible well pump to replace a water-lubricated, shaft-driven vertical pump installed at this site in 2005. GSWC provides the same reasons and lack of justification as was presented for the purchase of a submersible well pump for the Gorham Well discussed above.

7.2 DRA Recommendations and Findings

For the same reasons it offered in opposition to incorporating the expense of the Gorham Well above, DRA , as well as the grounds stated in its Ojai Report, DRA recommends disallowing this project.[224]

It noteworthy that for this issue, GSWC admits that a submersible pump generally costs about 17% less than water lubricated shaft driven pump, which contradicts the GSWC Workpaper for this project. That Workpaper claims the submersible pump is "approximately 70% less expensive than a water-lubricated pump."[225] Therefore little weight should be given to GSWC's Workpaper or rebuttal, since they are inconsistent and GSWC has not supported which percentage is accurate. Based on this inconsistency and the lack of data analyses by GSWC, the Commission should adopt DRA's recommendations.

Overhead

1. Overhead Allocation

1.1 Background

As DRA stated in the prior GRC Decision (D.) 06-01-025 involving GSWC Region 3, "[DRA's] goal is to keep the unallocated total at about zero; that is, all indirect costs should be allocated to a project." In D.06-01-025, GSWC did not zero out its overhead pool account, which according to DRA, resulted in imposing unreasonable and

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[224] *See* DRA (OJ)-1, 4-27 to 4-28,DRA Ojai Rept. on Ops.

[225] *Cf* Ex. 22, 90:10–13, E.Gisler Rebuttal/GSWC (17% less) *with* GSWC Ojai Workp'prs vol. 2, tab "Ratebase," sheet 213 (70% less).

unjustified rate burdens on the ratepayers for "phantom costs."[226] In this proceeding, GSWC witness Eva Tang testified that for the past ten years, the Company-wide overhead pool account was not reduced to zero.[227]

1.2 DRA Recommendations and Findings

In the case of Region 1, DRA specifically recommends that the Commission adopt an amount of capitalized expenses for the purpose of overhead rates that should not exceed more than $438,699, $449,052, and $459,021, respectively for the rate cycle years 2007, 2008, and 2009, regardless of the amount of capital budget in these years.[228]

GSWC contends in this proceeding that DRA did not propose additional revenues for "Adjustment for Capitalized Expenses."[229] In general, DRA would recommend adjustments to capitalized expenses to zero out the year-end balance of the GSWC company-wide overhead pool account, by transferring that balance to O&M and A&G expenses.

In this proceeding, however, DRA recommends not making this adjustment, because of its discovery that other larger Class-A water utilities, such as the California Water Service Company (Cal Water), annually book only $7 million or less of indirect costs in their overhead pool account. By contrast, GSWC annually has been booking approximately $13 million per year, which according to its Workpapers will be the same amount annually booked to the overhead pool account throughout the rate cycle years.[230]

In other words, GSWC is booking and will book approximately$6 million in excess of what larger Class A water utilities are putting into their overhead pool account. GSWC has earned and will earn on this excess an average rate of return of 9%, as well as

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[226] D.06-01-025 at 33 (mimeo).

[227] Hr'g Tr. vol. 8, 409:5–13, June 25, 2007, E. Tang/GSWC.

[228] DRA's analyses of the Overhead Allocation issue in its Los Osos Rept, is intended to represent DRA's position regarding this issue for all of Region 1 in this GRC.

[229] Ex. DRA (ALL)-18, 4:18–23,E.Tang Reb./GSWC.

[230] *See* Ex. DRA (LO)-1, 4-47 ll. 10–21, DRA Los Oso Rept. on Ops.

recovering it in rates. On an annual basis, this means for the ratepayers an unreasonable and unjustified amount of $540,000[231] per year and for the past ten years $5,400,000 in rate burdens. GSWC has failed to justify the excess $6 million as reasonable, when compared with the overhead pool accounts of larger Class A water utilities. Therefore, DRA is not recommending any revenue adjustment for GSWC's O&M and A&G expense as previously recommended in A.06-02-023.

GSWC claims that its annual indirect costs of approximately $13 million are "prudently incurred."[232] GSWC wants the $13 million included in rate base as an allocation of overhead costs from the overhead pool account to capital projects to be recovered in rates and in earnings at the authorized rate. Alternatively, GSWC wants the $13 million booked to O&M and A&G expenses and thereby recovered in rates dollar-for-a-dollar.

However, GSWC has not proved in this proceeding that the $13 million of indirect costs at issue is reasonable or justified. For example, no evidence explains why GSWC annually books nearly double the amount of Cal Water's indirect costs, i.e., $7 million. Until GSWC justifies discrepancy, DRA recommends that the Commission deny GSWC's request to book annually $13 million or more of indirect costs into the overhead pool account.

DRA recommends the GSWC's overhead rate for Region I should be based on only Region I. GSWC claims that this will require the Commission to allow a one-time revenue recovery for Region II and Region III.[233] However, considering the excessively high indirect costs historically booked in GSWC company-wide overhead pool account, Regions II and III appear to have been already made whole in terms of revenue recovery.

Second, Region II and Region III respective Overhead Rates will remain in place, until their overhead pool accounts are adjudicated in a GRC. For example, Region III's

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[231] $6,000,000 * 1.09 = $540,000.

[232] GSWC (ALL) – 18, 5:9–15, E. Tang Reb./GSWC.

[233] *Id.* at 6:4–11.

overhead rates have been adjusted in D.06-01-025, and Region II's overhead rates may be addressed in the recent Proposed GRC Decision for Region II.

In her Rebuttal, GSWC witness Eva Tang stated:

> On page 75 of DRA's report, DRA claims that GSWC books 21% of its entire employee related insurance, health benefits and vacation expenses into its overhead pool account. This is simply not true."[234]

Ms. Tang misunderstands the DRA Los Osos Report at page- 4-50, lines 10-15, which states the following:

> [I]n addition, GSWC books its entire employee related insurances, health benefits, and vacations expenses *into its General Office*. GSWC then designates 21% of these expenses as capitalized expenses. GSWC also estimates that approximately 64% of these 21% expenses should be booked into the company-wide Overhead Pool Account as an indirect capitalized labor. Once again, the true costs are distorted by this practice. [Emphasis added.]

DRA is stating that GSWC is booking books all of its employee related insurance, health benefits, and vacation expenses into the General Office — not into its overhead pool account. Ms. Tang is misrepresenting the DRA Report.

Further, as DRA (ALL)-19 illustrates, once these costs are booked into the General Office GSWC categorizes 21% of these costs (direct and indirect) as capitalized costs and books 64% of these capitalized costs into GSWC's company-wide overhead pool account as indirect costs.

Further in DRA's Los Osos Report at p. 4-50, lines 14–15, it is stated that GSWC's practice of booking all employee related insurances, health benefits, and vacation expenses to the General Office, misrepresents the actual value of the expenses that should be capitalized. For example, GSWC can trace labor related expenses directly to the individual employees throughout the Company. Accordingly, these labor related

[234] *Id.* at 6:19–21.

expenses should be booked in the Region where the pertinent employees are actually located, instead of to the General Office for allocation to other Regions.

GSWC capitalizes 21% of its employees' pension expenses and booking this amount into the Company-wide overhead pool account. Exhibit: DRA (ALL)-19 illustrates this 21% capitalization of employees' pension expenses. As the DRA Los Osos Report at p 4-50, lines 16-25, states:

> For employees' pension, GSWC has historically booked the entire 21% of this expense as indirect capitalized expense into the Company-wide Overhead Account. Upon DRA's objection in its last rate case proceedings, GSWC now books 64% of this 21% of employees' pension expenses as indirect capitalized labor. However, there is no need to pool employee related costs for insurance, health benefits, pension, and vacation into General Office. These costs should be directly assigned to each employee working in his or her operating region. By booking these costs in the Company-wide Overhead Pool Account, the reasonable amount of overhead costs for capital projects in GSWC's specific operating regions are distorted.[235]

When DRA objected to this practice in the GRC, A. 06-02-023, GSWC changed this capitalization of employees' pension expenses. However, the current practice of booking 64% of pension related expenses into Company-wide overhead pool account still distorts the actual indirect costs for a specific region. In Region 1, as long GSWC continues this practice, the harm to ratepayers will persist.

At Exhibit GSWC (ALL)-18, p. 7, Ms. Tang presents some calculations in support of GSWC's claims that DRA's adjustments are incorrect. More specifically at page-8, lines 12-16, of her Rebuttal Ms. Tang states:

> DRA further made an assumption that the total excess amount in Overhead Pool Account at the end of 2006 is $10,496,040 by totaling the beginning balance of $5,588,750 (item (a) of the table above) and $4,835,138 (item (f) and $72,152 (adjusted by DRA from $1,019,917 as item (g) above).

[235] *See* DRA (LO)-1, 4-50 ll. 16–25, DRA Los Oso Rept. on Ops.

The above excerpt misrepresents the following DRA adjustments:

1- The year-end balance for 2005 (or the beginning year balance of 2006) in the amount of $5,588,750 (item (a) in the calculations (Calculations) stated in Eva Tang's Rebuttal at p. 7) should be zeroed out and therefore be excluded.[236]

2- The year-end balance for 2006 is $1,019,917 (item (g) in the Calculations) which GSWC deliberately left in the overhead pool account in order to deal with revenue shortfalls, an issue arising in D.06-11-020. However, DRA finds the appropriate amount for the revenue shortfall that results in the case of D.06-11-020 should be only $947,765, which DRA adjusts to $72,152.[237]

3- The most important adjustment that DRA made was for $4,835,138. Ms. Tang erroneously indicates that DRA made this adjustment to zero out the Company-wide overhead pool account and thus duplicated the adjustment made in item 1 above. That is not the case. DRA made this adjustment because in 2006 GSWC booked indirect costs of $12,225,525 (item (b) in the Calculations) into its overhead pool account, when other Class-A water utilities, e.g., Cal Water, on average are booking only $7 million of indirect costs.[238] Therefore, DRA adjusted the indirect costs of $12,225,525 to approximately $7 million.[239]

In addition, according to GSWC Workpapers in 2006, the amount of indirect costs applied to capital projects was only $7,133,139.[240] However, E. Tang's Rebuttal listed these costs as amounting to $11,959,220 (item (c) in the Calculations). When asked about this discrepancy in the hearing, Ms. Tang testifies that the GSWC workpapers are

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[236] *See* DRA (LO)-1, 4-52 ll. 21–26,DRA Los Oso Rept. on Ops.

[237] 1,019,917- 947,765 = 72,125. *See* DRA (LO)-1,4-53 ll. 1-6,DRA Los Oso Rept. on Ops.

[238] *See* DRA (LO)-1, 4-47 ll. 10-21 ,DRA Los Oso Rept. on Ops.

[239] 12,225,525 – 4,835,138 = 7,390,387.

[240] *See* GSW (ALL)- 28, -29, and -29, folder "RBadj," MS Excel spr'shts, "Overhead- R1 V07 02-08-07 Update" and "OH by Object," Cell K29.

not updated and reflects the data as of October 2006. However, DRA finds that the pertinent Workpapers provided to DRA and the Commission are updated as of December 31, 2006.[241]

Similarly, the amount of adjustment that GSWC's itself applied in order to zero out the overhead pool account in 2006 was in the amount of $9,661,219.[242] The E. Tang Rebuttal fails to support its adjustment of $4,835,138 (item (f) of the Calculations).

DRA inquired about this discrepancy regarding item (f) above and received no plausible response.[243] Consequently, DRA used GSWC's adjustment of $4,835,138 to reduce the 2006 indirect costs of $12,225,525 to approximately $7,000,000. Therefore, it is GSWC which is advancing unreasonable results and not DRA.

Labor Issues

1. Labor Expenses Issues–Los Osos

1.1 Operation, Maintenance, and Administrative and General (A&G) Labor

1.1.1. Background

For Test Year 2008, DRA recommends that labor expenses for Operations should be set at $155,100, instead of GSWC's requested $232,700; labor expenses for Maintenance should be $40,000 instead of GSWC's requested $57,200; for A&G DRA recommends $27,000 instead of GSWC's requested $41,000.[244]

For all the types of Labor Expenses mentioned above, GSWC forecasted these costs by starting with actual and vacant positions in Los Osos and related annual salary expenses for 2006. To this base, GSWC added the labor expenses recorded in 2006 including for vacant positions and arrived a restated labor expense for 2006. Next, GSWC applied the allocated (from what?) percentage of labor expenses for 2006 to the

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[241] *Cf id. with* Hr'g Tr. vol. 8, 425:9–21, June 25, 2007, E. Tang/GSWC.

[242] *See id.* at spreadsheets "Overhead- R1 V07 02-08-07 Update" and "OH by Object," Cell K27.

[243] DRA (LO)-1, 4-53 ll. 7–15, DRA Los Oso Rept.

[244] DRA (LO)-1, 3-5 ll. 7–15.

restated labor expenses to determine a number and a percentage for capitalized and expensed portion of labor expenses. The expense portion is used for its base labor expenses to project future labor expenses.[245]

To the 2006 base labor expenses, GSWC next applies a wage escalation factor of 3.3%; a merit increase factor of 1.28%; a wage inflation factor of 2.20%; and an overtime factor of 6.29% to estimate the labor expense for 2007, and applies these same factors to the 2007 estimated labor expenses to project the labor expenses for Test Year 2008.[246]

In contrast, DRA uses only the actual recorded labor expenses for 2006 as the base to project the labor expense for the rate cycle years in this proceeding. Based on D.05-07-044, DRA excludes vacant positions. Next, DRA escalated the actual recorded labor expenses for 2006 to Test Year 2008 dollars by using the labor escalation factor of 3.2% for 2007 and 1.5% for Test Year 2008. DRA did not increase its estimates by any percentage factor for merit increase, wage inflation, or overtime, unless the actual recorded labor expense for 2006 included such factors as actual dollars paid and recorded in 2006.[247] {We need a sentence explaining why our methodology is better than GSWC's.}

2. Region 1 HQ/Coastal District

2.1 Engineering Technician III

2.1.1 Background

GSWC claims that the Engineering Tech III position is needed in the Coastal District Office, because several major projects are underway and the District Engineer does not have any support staff.[248]

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[245] *Id.* at ll. 16-23.

[246] *Id.* at 3-6 ll. 4–11.

[247] Ex. DRA (LO)-1, 3-5 ll. 24–29 and 3-6 ll. 12–19.

[248] GSWC (ALL) -7, 28:21–22.

2.2 DRA Recommendations and Findings

The evidentiary bases supporting DRA's finding is stated in Exhibit DRA (ALL) -1, DRA Administrative Offices et al Report (Admin Rept). The burden of proof is on GSWC, which requires more specific and quantitative evidence than beliefs or opinions of GSWC employees. For example, DRA found no support for GSWC's position "during the rate cycle in this proceeding the number of projects will significantly increase or that any new projects will require additional labor."[249] Instead of responding in its rebuttal with the requisite proof (e.g., records showing the number of projects planned for the Coastal District during the rate cycle), GSWC claims that DRA "discounted or minimized the entire justification that was written for this position."[250] And, GSWC rebuttal amounted to presenting personal beliefs, which was the general tenor of its prepared testimony, as follows:

> Conversely there is absolutely no indication that the existing work load will decrease and GSWC believed that the prepared testimony contained a brief list of projects that would require the assistance of the Engineering Tech III.[251]

GSWC is begging the question (what is the proof?) when stating:

> The District Manager "managed" without this position up through April 2006. At that point it was determined that GSWC could no longer operate in that manner because it was deemed as being a detriment to business and to other staff positions.[252]

How did GSWC determine, on what specific and quantitative bases particular to the Coastal District, did GSWC determine it "could no longer operate in that [what?] manner?" What is the nature, scope, and duration of the "detriment to business" and "to staff positions"? Absent appropriate evidentiary support from GSWC, it would be

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[249] *See* DRA (ALL) -1, 3-2 to 3-3, DRA Admin Rept.

[250] GSWC (ALL) -19, 17:14–15 and 18:5–11, R. Tanner Rebuttal/GSWC.

[251] *Id.* at 19:18–21.

[252] *Id.* 20:3–6.

unreasonable and unjust to impose this expense on GSWC's customers based on generalities and vagaries. The rest of GSWC rebuttal consists of just that: opinions, speculation, or other unsubstantiated statements.

DRA recommends disallowing GSWC's request for this position. At the PPH in Clearlake, many ratepayers testified that they live on a fixed income and were disabled. It is these ratepayers the Commission should keep in mind when deciding whether to approve increases in rate burdens. GSWC may believe it expedient and sufficient to present unsubstantiated reasons for its rate recovery reasons. But what would a disabled ratepayer want to see? Most likely, he or she would want to see the law upheld and GSWC to meet its burden of proof. (Cite)

3. Water Conservation Coordinator-Northern district

3.1 Background

This Water Conservation Coordinator position would only cover the Arden-Cordova CSA would not be involved in coordinating company-wide policy, including ratemaking. Therefore, DRA recommends disallowing the Water Conservation Coordinator position.

3.2 DRA Recommendations and Findings

Before hiring a water conservation coordinator for only one of its districts, GSWC should first to develop a comprehensive water conservation policy that uniformly applies to all of its three Regions and second, it should hire a Water Conservation Manager who would have the authority to design comprehensive and uniform water rates for all the Regions. As DRA witness Max Gomberg testified,

> The Water Conservation Coordinator being requested in this proceeding is a -- at the regional level, he or she would be assigned to develop water conservation initiatives broadly understood for Region I -- the company's Region I and would not affect water conservation initiatives directly in Regions II and III, whereas a high-level Water Conservation Manager

> would have the authority to design conservation initiatives broadly understood for all three regions.[253]

Undeniably GSWC has water conservation policies and practices applicable throughout all of its three Regions.[254] Therefore, DRA believes it more practical and efficient use of ratepayer resources to hire a single Coordinator who would have the authority to design and implement water conservation rates and policies throughout all three Regions.

When GSWC pressed Mr. Gomberg on cross-examination to speculate as to the salary level of a Company-wide Coordinator and then to admit that position would likely involve a higher expense for the ratepayers than the present Coordinator's requested salary expense,[255] GSWC overlooked one important fact. The requested Region 1 Coordinator's salary expense multiplied three times, i.e., hiring a Coordinator for each of the three Regions, would most likely impose a greater rate burden than the salary of one Coordinator who would have responsibility for all water conservation policies and practices throughout the Company's three Regions.

Further, GSWC has not proven that any exigent circumstances compel GSWC to immediately hire a Region 1 Coordinator, as opposed to hiring a single Coordinator for all three Regions. The record contains no such evidence.[256] Therefore, DRA recommends disallowing rate recovery for this position.

4. CH2MHill PARTNERSHIP

According to the Rate Case Plan, D.04-06-018, the utility bears the burden of proving that its proposed rate increase is justified and must include in the Proposed Application all information and analysis necessary to meet this burden.[257] In this

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[253] Hr'g Tr. vol. 9, 588:25–28, June 26, 2007, M. Gomberg/DRA.

[254] *See* GSWC (ALL) -19, 36:15–23, R. Tanner Rebuttal/GSWC (citing BMP 14).

[255] *Id.* at 592:14–26.

[256] *See* GSWC (ALL) -19, 34 to 39, R. Tanner/GSWC (no exigent circumstances).

[257] *Rate Case Plan,* D. 04-06-018 at App., 11 (2004) (mimeo).

proceeding, GSWC has declined to come forward with data or other information to prove its claims that its in-house engineers are incapable of preparing the Region 1 Master Plans or the purported increased workload allegedly caused by a greater local permitting requirements or higher levels of projects.

When in AMX-32 (Exhibit DRA(ALL)-24) DRA asked GSWC to justify the hiring of CH2MHill, GSWC produced an excerpt from the testimony Region II Engineering and Planning Manager, David Chang, which was given in another GRC. According to Mr. Chang, a key cause for hiring outside services, such as CH2MHILL, was that the level of "New Business" activities was taxing the capacity of in-house engineers to perform all the work. More specifically, GSWC witness R. Tanner testified that over the past five years, Region 1 has experienced over $23 million of New Business.[258] That fact stands unrefuted. GSWC's reticence during this proceeding regarding the role that the New Business plays in the hiring of CH2MHILL and the work assigned to it, implicitly evidences that GSWC wants to put the expenses of meeting the demands of the New Business in Region 1 on the backs of the ratepayers.

As Mr. Scanlon has stated, developers are responsible for paying for any project costs resulting from the New Business, which should include such collateral expenses as fulfilling local permitting requirements, design-build work, materials, and subcontractors' work.

It is legally incumbent on GSWC to prove that it is the business of the ratepayers and not the New Business that CH2M HILL is performing. Because GSWC has not met that burden of proof, the Commission should disallow any requested rate recovery for the costs of hiring CH2M HILL, whether for preparing Master Plans or design, design-build, and construction management work.

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[258]

Patrick Scanlon testified that in 1996 the Company's averaged capital spending was $16 million and GSWC had 160 water main and water supply projects. Today, GSWC has 275 water main and water supply projects.[259]

First, Mr. Scanlon is speaking in terms of all three Regions and not specifically of Region 1. As Mr. Scanlon admitted, his rebuttal does not present any facts or data specific to Region 1.[260] However, this is a GRC to assess the proposed rate burdens on Region 1 ratepayers and not Regions II and III's ratepayers. Further, this proceeding is not to impose on Region 1 ratepayers the burdens of Region II and III's rate. Therefore, the Commission should give Mr. Scanlon's Rebuttal little weight.

Second, Mr. Scanlon omitted that since 1996 GSWC has often hiring new engineers and other employees to meet increased work loads. For example, in 1997 the GSWC General Office staff had 87 employees, but by 2005 increased to 102, and in 2005 in A.06-02-023 GSWC asked Commission approval for 139 additional employees.[261] GSWC presented no data or any other explanation why its past and current increase of employees fail to meet any purported workload increases and further fails to prove what specific causes in Region 1 are creating the greater workloads.

As for the table listing of various local permitting requirements presented in GSWC Rebuttal,[262] GSWC did not present this information in a timely manner as required by D. 04-06-018, the Rate Case Plan. DRA did not receive and opportunity to prepare for it at the hearing. And, while including some localities in Region 1, it presents mostly local permitting requirements in Region II. Therefore the Commission should give this table little weight.

Moreover, the data are not provided to support the time estimates stated as needed for meeting the various permitting requirements are not presented. For example, are the

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[259] GSWC (ALL) -16, 2: 26–27 and 3:1–5, P. Scanlon Rebuttal.

[260] *See* Hr'g Tr. vol. 9, 465:5–18, June 26, 2007, P. Scanlon/GSWC

[261] *See* DRA (LO)-1, 4-59 ll. 4–16 (e.g., 60% staff increase in Gen. Off. since 1967).

[262] *Supra* GSWC (ALL) -16, 3 to 5.

purported amounts based on all Regions or just one? GSWC does not differentiate what are the past and the "new requirements." Nor does GSWC rebut DRA's specific showing that over $23 million of New Business development in Region 1 is causing the rise in local permitting activities. Most saliently, GSWC does not show with quantitative data (e.g., employee overtime records) that its existing Region 1 are "insufficient" to meet the purported level of local permitting activities, despite the number of new employees added over the past five or ten years.

While GSWC represents business as usual when it hired CH2M HILL, GSWC omits the facts that although other third-party contractors are hired on an as-needed basis, GSWC has a continuous contractual arrangement with CH2M HILL beginning in 2004 and projected to endure through 2009 if not more. As the record proves, in 2005 GSWC paid CH2M HILL approximately $7 million[263] for performing capital projects and will renew its hiring contract with CH2MHill through 2009.[264] Further, while currently GSWC handles 60% of its design work in-house, 20% of the total design work assigned to 14 outside venders and CH2M HILL has the remaining 20%.[265] While GSWC quibbles with the legal definition of the term "partnership," the long-standing GSWC retention of CH2M HILL's services is *de facto* a partnership.

Hiring of CH2MHill for the years beyond 2005 based on renewal of an RFP limited to 2005, amounts to a "no-bid" contract. Further, CH2M HILL was hired to perform planning and design, design-build, and construction management of both "distribution" and "water supply" projects. The "Proposal Evaluation Section" of the CH2M HILL RFP shows that the "Fee Schedule" was only given a minimum weight of 10%, which the cost benefit of hiring CH2M HILL received little weight. [266]

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[263] Copy of GSWC's contract with CH2MHill (See GSWC's response to DRA's data request, AMX-32)

[264] GSWC (ALL) -8, 3: 24-26, E. Gisler.

[265] Hr'g Tr. vol. 9, 552:16–28 and 553:1–6, June 26, 2007, P.Scanlon/GSWC.

266 Ex. 24, GSWC Data Resp. to AMX-32, dated Mar. 16, 2007 (CH2M HILL contact paid approximately $7 million and was only for 2005).

DRA finds a conflict-of-interest in the "partnership" between GSWC and CH2M HILL. Ch2MHill performs "design", "design-built" or "construction management" and also is to prepare the Master Plans for all of Region 1, which is described as the "roadmap" of capital projects for the next ten years. This presents a high risk of self-dealing that GSWC has failed to disprove and which further warrant denying any rate recovery for the cost of CH2M HILL's work in this proceeding.

While GSWC claims that Ch2MHill achieves reduced costs and improved efficiencies,[267] no quantitative data was presented to prove these assertions, and Ch2MHill is already in the third year of its partnership with GSWC. In a number of projects, it is apparent that CH2MHill charges are much higher than those GSWC's own in-house staff for the comparable service. Further, in addition to GSWC's contingency surcharges, CH2M HILL adds its own and a 12% profit margin. GSWC has failed to prove the cost effectiveness of hiring CH2M HILL.

GSWC has stated that if a project is identified as a good candidate for "design/build", the "design/build" project will be competitively bid according to GSWC policy."[268] This statement is inconsistent with GSWC long-standing contract with CH2MHill and 2005 payment to CH2MHIll of approximately $7 million dollars without identifying any specific "design", "design/build" and "construction management" projects for year 2005; GSWC's repeated renewal of the CH2M HILL contract through 2006. The company will more likely retain the services of CH2MHill for the capital projects in year 2008 and 2009.[269]

Therefore, DRA recommends disallowing any of GSWC's requests for the cost of CH2M HILL preparing Region 1's Master Plans, which will exceed $1 million, and of any design, design-build, construction management, or other work performed by CH2M

[267] GSWC (ALL) -16, 10:20–23, P.Scanlon.

[268] GSWC (ALL) -16, 12:1-2, P. Scanlon Rebuttal.

[269] GSWC (ALL) -22,3:24–26, E.Gisler Rebuttal.

HILL. The ratepayers should not have to pay for any of these costs because GSWC has failed to prove they cost effective or otherwise justified.

CONCLUSION

Based on the above, DRA respectfully requests that the Commission adopt its recommendations as stated above. DRA is surprised that at times GSWC admits it has the data to support its requests, such as in the office or elsewhere, but has not come forward with it to prove its case. The Applicant has the burden of proof not DRA. Therefore the Commission should disallows GSWC's requests accordingly.

Respectfully submitted,

/s/ CLEVELAND LEE

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August 2, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES** in **A.07-01-009 et al.** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on August 2, 2007 at San Francisco, California.

/s/ JANET V. ALVIAR
Janet V. Alviar

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